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The SOUTHERN ECONOMIC JOURNAL

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THE TRANSPORTATION ACT OF 1940[1]

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President Roosevelt signed the Transportation Act of 1940 on September 18th of that year, thereby adding to the legislative structure another unit in a long series of recent transport laws, and at last extending the regulatory arm of the federal government, in a more or less thoroughgoing manner, to every directly competitive form of intercity transportation within the United States.[2] Among the other laws are the Motor Carrier Act of 1935, amended in 1938, and the Civil Aeronautics Act of 1938. Still other legislation of the thirties includes the 1932 amendment to the Shipping Act of 1916; the Emergency Railroad Transportation Act of 1933; the Intercoastal Shipping Act of 1933, amended in 1938; the Delegation of Authority Act of 1933; Section 77 of the Bankruptcy Act of 1898, passed in 1933 and amended in 1935, 1936, and 1939; the Air Mail Act of 1934, amended in 1935; the 1934 and 1936 amendments to the Railway Labor Act of 1926; the Merchant Marine Act of 1936, amended in 1938; the Railroad Retirement Act of 1935, amended in 1937; and the Railroad Unemployment Insurance Act of 1938, amended in 1939.[3] Taken together the score or more of acts constitute a striking illustration of the tendency to expand the scope of regulation once it has begun in an industry. Seldom

[1] *Public Law No. 785*, 76th Cong., 3d Sess. (1940). A short article on the Act has been published in *Public Utilities Fortnightly*, Dec. 5, 1940, pp. 789–800. Another article is R. L. Dewey, "The Transportation Act of 1940," *American Economic Review*, Mar. 1941, pp. 15–26.

[2] As explained later, regulation was imposed upon carriers not theretofore subjected to federal control. In addition, there were enacted a number of amendments to the Interstate Commerce Act as it existed prior to 1940.

[3] Brief discussions of and citations to these laws may be found in most recent texts on

if ever has the government more thoroughly occupied a broad field of regulation within so short a period of time.

I

The Act of 1940, as well as the other above-mentioned legislation, was fundamentally a product of the business depression and the intensely competitive situation in transportation.[4] And it was passed not on account of a demand voiced by the general public but in response to the recommendations of regulatory authorities and of certain carriers, especially organized steamship companies and railroads.[5] As a result, the first objective of the new law was to restrain competition, at least to a limited extent, and to bolster up the transport industries, with special reference to the welfare of the railroads, rather than to protect shippers and consumers against unreasonable rates.[6] Shippers, farm organizations, and contract carriers by water were in fact generally opposed to the act.[7] Joining in the opposition were the state railroad and utilities commissioners, who as a class were apprehensive of further federal encroachment upon state authority.[8]

The chief arguments offered in favor of the pending legislation related to water transportation and may be summarized as follows. Regulation is needed not because other forms of transportation are regulated but because of the results of easy entrance into the water

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transportation. There might also be mentioned in this connection the 1935 amendments to the Federal Water Power Act and the Natural Gas Act of 1938. The two acts provided for federal regulation of wholesale rates for electricity and gas in interstate commerce.

[4] These conditions are too well known to require detailed explanation.

[5] The act was also endorsed in principle by labor groups, numerous chambers of commerce, and various commercial organizations.

[6] See Committee on Interstate and Foreign Commerce, *Transportation Act of 1939*, 76th Cong., 1st Sess., Report No. 1217, p. 2 (July 18, 1939). It was largely this objective which elicited the support of common carriers in the passage of the legislation of 1940.

[7] *Hearings before the Committee on Interstate Commerce, United States Senate, on S. 1310, S. 2016, S. 1869, and S. 2009*, 76th Cong., 1st Sess., pp. 161, 284, 291, 357, 504, 515 (1939); also *Hearings before the Committee on Interstate and Foreign Commerce, House of Representatives, on H.R. 2531 and H.R. 4862*, 76th Cong., 1st Sess., part 4, pp. 997, 1105, 1155, 1182, 1643, 1676 (1939). These hearings will be referred to hereafter as *Senate Hearings* and *House Hearings*.

[8] *House Hearings*, part 4, p. 1659 (1939).

transport industry. Easy entrance leads to a large number of competing producers, wide variations in costs, a high degree of business mortality, and ignorance of operating conditions. Such consequences do not in themselves justify regulation; but when their occurrence has especially harmful effects in an essential business like transportation, regulation is clearly required.

Concretely, the proposed legislation was said to be needed, first, to promote coordination in transportation. Coordination cannot be attained without control of transport capacity and minimum rates. And the best way to control these is by regulation. Automatic adjustment through competition invites excessive capacity, wasteful duplication of facilities, subnormal rate levels, and other undesirable results. Though competition among and between the various agencies of transportation should be kept alive, it must be effectively controlled. To be so controlled, regulation should be lodged in the hands of one body whose authority is coterminous with the entire field of transportaion.

Regulation is necessary, second, to assure safe, dependable, and adequate service by waterway. Unrestrained competition drives earnings below cost and impairs credit, thereby preventing the carriers from maintaining equipment and service of proper standard.[9] Competition is not ruinous as in the railroad industry, but irresponsible or ignorant operators tend to keep earnings at a level too low for good service. The inefficient concerns soon fail, yet it is so easy to enter the business that other operators of similar character constantly take the place of those failing. Such a condition is particularly harmful to the small shipper. For he often finds it uneconomical to provide his own transportation; cannot turn to a contract carrier, since this type of operator prefers to concentrate on the more profitable traffic without completely covering the area served; and may be unable to secure common-carrier service because the common carrier refuses to compete with irresponsible concerns that need not maintain high standards of service.

[9] The Federal Coordinator of Transportation found that shipping has recently been so unprofitable that the companies have been unable to attract sufficient capital to modernize vessels.

Regulation is needed, third, to stabilize rates.[10] When unregulated, rates are not published and may change overnight. This is harmful to the conduct of commerce and industry, for business obligations and contracts cannot be readily undertaken unless the costs of transportation can be estimated with reasonable certainty. Shippers have no way of knowing what the charges in the immediate future will be, or what rates rival shippers are paying. Though rates must be adjusted from time to time, they should be changed in an orderly manner after publication and due notice. The problem of stability is complicated by the presence of three different types of operators that have differing obligations, namely, common, contract and industrial carriers.

Regulation is desirable, fourth, to promote the establishment of reasonable rates. So long as operations over a given route are not restricted, the danger of unreasonably high rates is not great; but effective regulation creates some degree of monopoly, if the authorities attempt (as they should) to control the supply of facilities by requiring certificates of public convenience and necessity. Large shippers can protect themselves from exorbitant rates by turning to contract carriers, or by furnishing their own transportation; but the small shipper is at a disadvantage as explained above.

Arguments against the proposed legislation were as follows: (1) There is no general public demand for the extension of federal regulation. On the contrary, increased regulation is widely opposed by important interests. (2) The Interstate Commerce Commission is now overburdened with regulatory duties and cannot effectively perform additional work, particularly where thousands of operators are involved. (3) Further regulation will stifle initiative and lessen the incentive to efficiency. (4) More thorough regulation of water lines, especially contract carriers, will endanger the flexibility of water rates and service, at least when the lines compete with other forms of transportation. (5) Regulation will mean higher rates. (6) By restricting the supply of water transport facilities, increased federal regulation will hamper the growth of water transportation, in contravention of Congress'

[10] The Coordinator's studies showed the existing rate situation to be chaotic on the waterways, largely as a result of low wages, substandard equipment, ignorance as to costs, etc.

expressed intention to encourage such transportation in order to keep railroad rates down. (7) The proposed regulation will ultimately concentrate water transportation in the hands of a few large shippers, to the disadvantage of their smaller competitors.[11]

Most emphasis was laid upon the fifth point. It was argued that rates will be increased, in part because of the inherent costs of regulation, but chiefly because of the policy of the "railroad minded" Interstate Commerce Commission in fixing minimum rates, as already indicated in connection with motor transportation.[12] This policy, so the argument ran, has been in general to approve proposed minimum rates that are reasonable for organized motor carriers even when lower rates would provide a profit for individual operators not organized.[13] And it was asserted that the commission has allowed the higher minimum rates without giving adequate consideration to the possibility of overinvestment in motor transport facilities and to the tendency of the organized carriers to follow the railroads in demanding rate increases.

The force of the argument above is weakened, of course, by the practice of the commission in permitting departures from schedules of minimum rates. Furthermore, if the Interstate Commerce Commission interprets the new act's declaration of policy as Congress apparently intended, and keeps in mind the best, or perhaps the immediate, interests of the public, the danger of increased rates, though real, may not materialize except where increases are clearly justified. It was the opinion of Commissioner Eastman that such would be the case.[14] But even if rates are raised they are likely to be ineffective, on account of the opportunity of the large shipper to provide his own transport service, at least as regards certain commodities adaptable to trucking and to transportation by privately owned vessel.[15] Such potential competition is of course

[11] See Committee on Interstate and Foreign Commerce, *Transportation Act of 1939*, 76th Cong., 1st Sess., Report No. 1217, pp. 29–31 (July 18, 1939).

[12] There would have been especially good grounds for the premonition concerning higher rates if the railroads had succeeded in their efforts to rewrite the rules of rate making and to levy tolls upon the waterways.

[13] For a review of the minimum rate decisions of the commission see *House Hearings*, part 4, pp. 1647–1669 (1939).

[14] *Letter from the Chairman of the Legislative Committee of the Interstate Commerce Commission*, 76th Cong., 1st Sess., p. 10 (Mar. 20, 1939).

[15] *Senate Hearings*, p. 765 (1939).

by no means a complete protection against exorbitant rates; but it is effective within broad limits, and probably explains the lack of interest on the part of the general public in the enactment of the legislation of 1940.

II

The act of 1940 grew directly out of two reports.[16] The first report was made by three members of the Interstate Commerce Commission to President Roosevelt on March 24, 1938, and was transmitted to Congress by the President on April 11, 1938.[17] The second report was drawn up and submitted to the President by six representatives of railroad management and labor on December 23, 1938, after Congress had failed to act on the first report.[18]

The Report of the Committee of Three outlined a plan of immediate relief for railroads, and proposed a long-term program for transportation in general. The recommendations for relief included (1) extension of public credit to the railroads; (2) elimination of land-grant rates; and (3) establishment of a special court to take charge of reorganizations. Though not expressing an opinion for or against a reduction in railroad wages, the committee pointed out that a reduction would greatly aid the carriers.

[16] Other reports no doubt had some influence on the legislation. Among the others were those of the National Transportation Committee; the Joint Committee of Railroads and Highway Users; the National Transportation Conference; the Federal Coordinator of Transportation; and the Interstate Commerce Commission. *Senate Hearings*, p. 463 (1939). The commission emphasized the need for regulating water lines in its annual report for 1930, and in 1935 Commissioner Eastman drew up S. 1632 to provide for regulation. *Senate Hearings*, p. 357 (1939).

[17] *Immediate Relief for Railroads*, House Doc. No. 583, 75th Cong., 3d Sess. (1938). The Committee of Three was selected from a larger committee of 15 brought together by the President early in March. Included on the larger committee were Senator Wheeler for Congress; Mr. Gray for the railroads; Mr. Bruere for the banks; Commissioners Splawn, Mahaffie, and Eastman for the Interstate Commerce Commission; Secretary Morgenthau for the Treasury; Mr. Jones for the Reconstruction Finance Corporation; Mr. Douglas for the Securities and Exchange Commission; and representatives of the Farm Credit Administration and other departments of the government. The Committee of Three consisted of Chairman Splawn and Commissioners Eastman and Mahaffie. Its report is sometimes referred to as the "Splawn" report, but more often as the "Report of the Committee of Three."

[18] *Report of Committee Appointed September 20, 1938 by the President of the United States to Submit Recommendations upon the General Transportation Situation.* The members of this committee were drawn entirely from the railroad industry as follows: Messrs. M. W. Clement, Carl R. Gray, George M. Harrison, B. M. Jewell, Ernest E. Norris, and D. B. Robertson. Their report is hereafter referred to as the "Report of the Committee of Six."

The long-term plan emphasized the need for increasing the internal efficiency of the carriers and suggested (1) the creation of a temporary federal transportation authority of three, to encourage consolidation and coordination; and (2) a broadening and liberalizing of the commission's power over unifications, including the right to require coordination.[19] The authority was to investigate the relative economy of rail, motor, and water transportation; ascertain the extent to which the three forms of transportation are supported by public funds; and inquire into railroad financial abuses, especially in relation to holding companies. After such studies were completed, it was expected that the authority would report upon the desirability of compulsory railroad consolidation, new legislation to promote coordination, and extension of regulation to all important types of transportation.[20]

In transmitting the Report of the Committee of Three to Congress, President Roosevelt requested that the membership consider transferring the administrative duties of the Interstate Commerce Commission to some old or new department of the federal government, leaving the quasi-judicial and quasi-legislative functions as presently located. Chairman Splawn had stressed the need for reorganizing the commission, although the commission itself was in general opposed to reorganization by law, except in a very broad way to permit greater flexibility of procedure and less delay in handing down decisions.

The Report of the Committee of Six was less conservative and called forth more opposition than that of the Committee of Three. Its leading recommendations were as follows: (1) adoption by the government of a definite national transportation policy providing for impartial regulation of all modes of transportation, so adminis-

[19] It may be observed that one commissioner did not favor the creation of an authority. Mr. W. O. Douglas recommended an authority of one, who would report directly to the President; and Secretary Morgenthau urged the establishment of a department of transportation to take over the administrative duties of the commission. To most students who are thoroughly familiar with the problem of regulation it probably seems fortunate that the recommendations of Secretary Morgenthau were not carried out. In the opinion of the writer, to have opened the door of regulation to political meddling even in a more or less remote way would have been a fatal blunder likely to becloud the continuation of a long record of success on the part of the Interstate Commerce Commission.

[20] Reports of the Federal Coordinator of Transportation had indicated much waste in the railroad industry; but little had been done to eliminate it, largely because of the labor restrictions imposed by the Emergency Railroad Transportation Act of 1933.

tered as to preserve the inherent advantages of each; (2) centralization in the Interstate Commerce Commission of all regulatory provisions with respect to rates, services, valuation, and accounting of all modes of transportation; (3) revision of the rule of rate making by applying it to all forms of transportation, and by eliminating the phrase "to the effect of rates upon the movement of traffic"; (4) repeal of the long-and-short-haul clause; (5) extension of the authority of the commission over intrastate rates, so as to more readily eliminate state interference with interstate commerce; (6) creation of an independent transportation board, to function as an investigatory body, and eventually to administer the regulatory provisions covering certificates of public convenience and necessity, securities, and combinations; (7) imposition of tolls for the commercial use of certain inland waters; (8) abolition of the Inland Waterways Corporation; (9) relief from unjust tax burdens; (10) elimination of land-grant rates; (11) establishment of a single court of reorganization; (12) repeal of the provisions of law making the commission responsible for the prescription of a general plan of railroad consolidation; and (13) enlargement of the lending powers of the Reconstruction Finance Corporation. In general, emphasis was placed upon the betterment of competitive conditions rather than upon the improvement of internal efficiency.

It will be noted that the two reports were in substantial agreement on five points: (1) extension of public credit to the railroads; (2) elimination of land-grant rates; (3) establishment of a special court of reorganization; (4) repeal of the law requiring the Interstate Commerce Commission to prepare a grand plan of railroad consolidation; and (5) creation of a transportation authority. Accordingly, since Congress was under pressure to act, especially from the President, and since few objections to the five proposals were voiced, save the third, provisions dealing with all except the third were incorporated in the new law, after being written, along with other clauses, into bills introduced in the House of Representatives and in the Senate early in 1939.[21] The leading

[21] Though it was recognized that a special court would possess the advantages of specialization, it was argued that to create one at this late date would retard rather than speed up railroad reorganizations and undo much of the work of commissions and courts already finished. *House Hearings*, part 4, pp. 1619, 1724 (1939).

bills in the House were designated H. R. 2531,[22] introduced by Mr. Lea on January 13; and H. R. 4862,[23] introduced by the same man on March 8. The first bill was based upon the reports of both committees, while the second dealt largely with the Report of the Committee of Six. The companion bill in the Senate was S. 2009, introduced by Mr. Wheeler on March 30, 1939.[24] There were significant differences, of course, among all three bills, but especially between the first one and the last two, both of which undertook the ambitious task of rewriting the Interstate Commerce Act in its entirety.

After extended hearings during the spring and summer, and in particular after consultations with representatives of the Interstate Commerce Commission, the three bills were consolidated in one (S. 2009) and sent to conference. The conference report was finally adopted by the House on August 12, 1940, and by the Senate on September 9, 1940.[25] In the course of its progress through committees and Congress, the original draft of S. 2009, based largely upon H. R. 4862, was naturally greatly modified and improved.[26] One important modification was dropping the attempt to rewrite the Interstate Commerce Act.[27]

III

The Transportation Act of 1940 is divided into Titles I, II, and III. Title I amends the Interstate Commerce Act. Title II adds to the act a new part, III, which provides for the regulation of water transport as of January 1, 1941, with the proviso that the

[22] Called the "Lea Bill." Printed in *House Hearings*, part 1, pp. 1–17 (1939).

[23] Known as the "Fletcher Bill," or "Bill Proposed by the Committee of Six." Printed in *House Hearings*, part 4, pp. 1826–1898 (1939).

[24] "Wheeler-Truman Bill."

[25] See American Short Line Railroad Association, *Transportation Act of 1940*, pp. 29–32 (1940). The Act of 1940 is printed in this booklet. See also *House Hearings* and *Senate Hearings*. Commissioner Eastman made three reports on the various bills: one on March 20, 1939, a second on May 27, 1939, and a third on January 29, 1940. Seldom has one individual had as much influence on transport legislation as Commissioner Eastman.

[26] Much debate centered around the proposed "Wadsworth" amendment directing the commission to permit each type of carrier to reduce rates so long as they are compensatory, in order to protect water lines. But the commission pointed out that this amendment was unnecessary in view of the declaration of policy and the rule of rate making. *Congressional Record*, Aug. 12, 1940, p. 15586.

[27] It was argued that under existing circumstances the time was too short for such a task.

Interstate Commerce Commission may extend the effective date not later than April 1, 1942. Title III covers miscellaneous matters, including investigation of various modes of transportation, rates on government traffic, and amendments to the Reconstruction Finance Corporation Act. The principal provisions of the three titles may be analyzed under six heads.[28]

(1) *Amendments to Part I of the Interstate Commerce Act.* One of the most significant amendments is the broadened declaration of a national transportation policy, modeled along the lines of the older declaration, now deleted, in the Motor Carrier Act of 1935. Quoting,

> It is hereby declared to be the national transportation policy of the Congress to provide for fair and impartial regulation of all modes of transportation subject to the provisions of this Act, so administered as to recognize and preserve the inherent advantages of each; to promote safe, adequate, economical, and efficient service and foster sound economic conditions in transportation and among the several carriers; to encourage the establishment and maintenance of reasonable charges for transportation services, without unjust discriminations, undue preferences or advantages, or unfair or destructive competitive practices; to cooperate with the several States and the duly authorized officials thereof; and to encourage fair wages and equitable working conditions;—all to the end of developing, coordinating, and preserving a national transportation system by water, highway, and rail, as well as other means, adequate to meet the needs of the commerce of the United States, of the Postal Service, and of the national defense. All of the provisions of this Act shall be administered and enforced with a view to carrying out the above declaration of policy.[29]

Additional amendments to Part I make it the duty of railroads to establish reasonable through routes with common carriers by

[28] Numerous minor provisions are omitted, due to limitations of space. One group of such provisions authorized free transportation for labor representatives and postal employees, when on duty, and for the household goods and personal effects of the employees of a carrier that have to be moved as a result of a change in place of employment. The provisions of the Interstate Commerce Act relating to reduced rates to improve housing conditions were repealed, and several new paragraphs on discrimination were added. In addition, the time within which shippers may seek reparation, or the carriers recovery, was shortened from 3 to 2 years.

[29] *Public Law No. 785*, 76th Cong., 3d Sess., pp. 2–3 (1940).

water;[30] add the words "region", "district", and "territory" to Paragraph (1) of Section 3 of the Interstate Commerce Act; direct the commission to give special consideration to export rates on farm products and to institute an investigation of interterritorial and intraterritorial rates in general;[31] make the beneficial owner rather than the shipper responsible for the transportation charges of a delivering railroad or express company;[32] extend the long-and-short-haul clause to common carriers by water and eliminate the "equidistant" provision of the clause;[33] liberalize the commission's authority over combinations and omit the instructions to prepare a plan of consolidation, with the proviso that during a period of four years from effective date the employees of railroads directly concerned shall not be placed by unification in a worse position with respect to employment, unless otherwise agreed by the carrier and employees, and with the further proviso that the railroads may not combine with common carriers by water operating through the Panama Canal;[34] give the commission power

[30] The establishment of such routes was theretofore somewhat limited. See D. P. Locklin, *Economics of Transportation*, p. 736.

[31] An investigation of the kind was already under way, largely as a result of the "Ramspeck Resolution," but had been limited in scope. If much is to be accomplished by this amendment it will be necessary for Congress to supply the commission more liberally with funds; for an investigation of rate structures in general is a large undertaking.

[32] Important in instances of reconsigned or diverted shipments.

[33] Though the importance of this clause is probably exaggerated, the railroads strongly advocated its outright repeal. The Interstate Commerce Commission, however, was opposed to repeal, on the grounds that Section 4 is sufficiently flexible as it now stands and that it tends to prevent the reduction of rates to abnormally low levels. The commission had previously voiced opposition to the Pettengill Bill, which likewise sought virtually to eliminate Section 4. *Letter from the Chairman of the Legislative Committee of the Interstate Commerce Commission*, 76th Cong., 1st Sess., p. 13 (1939). See also *House Hearings*, part 4, p. 1823 (1939). Tariffs may be filed concurrently with Fourth Section Applications, and the commission may permit them to become effective upon one day's notice when application is granted. Furthermore, the provision relating to raising rail rates reduced to meet water competition was eliminated, on account of the extension of regulation to water lines and certain decisions of the Supreme Court that limited the application of the provision.

[34] Practically all the provisions of the Interstate Commerce Act relative to pooling, unifications, mergers, and acquisitions of control are placed under Section 5. The clause dealing with pooling is broadened by including motor and water carriers and by substituting for the word "freight" the terms "traffic" and "service"; and control over consolidation is made more flexible by the omission of the obligation on the part of the commission to prepare a grand plan of consolidation. Nevertheless, pooling and consolidation will probably not take place in the near future to the extent desirable, partly because of continued reliance upon

to inquire into and report on the management of the business of all common carriers subject to the act, including persons controlling, or controlled by, such carriers; extend the rule of rate making to all forms of transportation, but without deleting the phrase "to the effect of rates on the movement of traffic";[35] allow the commission to designate one or more of its divisions as appellate divisions and to assign any of its work, except matters referred to joint boards or functions vested in the commission, to any division, commissioner, or board of employees;[36] and clarify the commission's authority over accounts, records, and reports.[37]

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voluntary action and partly because of numerous statutory limitations, especially as regards labor. More pooling would doubtless be accomplished had Congress followed the recommendations of the Committee of Three to the effect that the assent of all carriers involved and a finding of no undue restraint of competition be not made conditions to commission approval of pooling. In passing upon proposed unifications the commission is required to give weight to the following considerations: (1) the effect of the transaction upon adequate transportation service; (2) the effect of the inclusion or omission of other railroads; (3) the total fixed charges resulting from the transaction; and (5) the interest of the carrier employees affected. Though the five considerations appear to be reasonable, their practical effects may not be very far-reaching in modifying commission policy.

[35] As Commissioner Eastman pointed out, to have omitted this phrase would have indicated that Congress no longer wishes the effect of rates upon traffic to be considered as a factor in fixing rates, notwithstanding the fact that in practice the traffic effects of proposed rates can never be ignored. Moreover, literally interpreted the rule without the phrase wolud force the commission to approve increases in rates, even during a depression, that would provide a normal return on excessive capital investment, in disregard of the best interests of the transportation industry in general and of the welfare of the railroads in particular. *Letter from the Chairman of the Legislative Committee of the Interstate Commerce Commission*, 76th Cong., 1st Sess., p. 8 (1939). Something is to be said of course for preserving transport plant for the future.

[36] In evaluating this amendment it will be recalled that prior to the passage of the act of 1940 the commission had no authority to designate appellate divisions and that its assignment of work to individual commissioners or to boards of employees was limited. Cases instituted on the motion of the commission, or those involving the taking of testimony at public hearings, could not be delegated to subdivisions. It follows that the changes made in 1940 should speed up the work of the commission and lessen the cost of regulation to litigants, although the law specifies, against the wishes of the commission that "The assignment or reference, to divisions, of work, business, or functions relating to the lawfulness of rates, fares, or charges shall be made according to the character of regulation to be exercised and not according to the kind or class of the carriers involved or to the form or mode of transportation in which such carriers may be engaged." This limitation was designed to prevent partisanship within the commission with reference to particular classes of carriers. However, as argued by the commission, it is probably an unnecessary and unwise provision. The hearings failed to develop any substantial testimony to the effect that the commission has in the past exhibited partisanship in its decisions, even though the Motor Carrier Act of 1935

(2) *Amendments to the Motor Carrier Act of 1935.* The amendments to Part II of the Interstate Commerce Act, though somewhat numerous, may be dealt with briefly, since they do not appear to be particularly important. One amendment made it clear that the Motor Carrier Act does not apply to the pick-up and delivery services of carriers subject to Parts I and III of the Interstate Commerce Act.[38] Another amendment provides that a motor carrier operating wholly within a state may be exempt from the Motor Carrier Act by filing with the Interstate Commerce Commission an application accompanied by a certificate of the state board of the state in which the operations are carried on stating that in the opinion of such board the carrier is entitled to exemption if the commission fails to act upon the application within 60 days. Regulation by the state of the exempt carrier is not to be considered a burden upon interstate commerce, even though the carrier might happen to engage in such commerce by participating in a through shipment originating outside the state. The local part of the through haul is to be exempt if the commission is of the opinion that the transportation in question "is in fact of such nature, character, or quantity as not substantially to affect or impair uniform regulation by the Commission of transportation by motor carriers engaged in interstate or foreign commerce in effectuating the national transportation policy declared in this Act". This amendment recognizes the local character of motor transportation, may facilitate the distribution of interstate traffic to points not on a direct interstate motor route, and may lessen the burden of work upon the commission by exempting numerous operators, but it can easily lead to difficulties. It is best understood as another expression of intent on the part of Congress not to allow the application of the "Shreveport" rule to motor vehicle transportation.[39] A final change in the Motor Carrier Act directs the

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has been administered by a separate division. And the motor carriers themselves opposed a functional division of the commission.

[37] The chief changes relating to the accounts and records empower the commission to require special as well as annual reports, to prescribe a uniform system of accounts for any type of carrier, to establish classes of depreciable property as well as rates of depreciation, and to assume jurisdiction over memoranda of the movement of traffic. The commission was also given access to the accounts of persons controlling or controlled by carriers.

[38] The Interstate Commerce Commission had been divided within itself on this question.

[39] In passing the Transportation Act of 1920 Congress put the Shreveport rule as regards

commission to expedite the investigation of the need for federal regulation of the sizes and weight of motor vehicles.

(3) *Regulation of Water Carriers.* With important exceptions, the Transportation Act of 1940 extended federal regulation to all interstate transportation on the inland waters and along and between the coasts.[40] It also transferred the regulatory functions of the Maritime Commission to the Interstate Commerce Commission.[41]

The exemptions allowed by the act are so extensive as to remove a substantial portion of water transportation from statutory control. They include the following: common and contract services rendered in terminal areas as a part of rail or motor movement;[42] transportation by common or contract water carriers of commodities in bulk when the cargo space of the vessel is used to carry not more than three such commodities;[43] transportation by a

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railroads in the form of statutory law. But in passing the Motor Carrier Act of 1935 Congress said: "That nothing in this part shall empower the Commission to prescribe, or in any manner regulate, the rate, fare, or charge for intrastate transportation, or for any service connected therewith, for the purpose of removing discrimination against interstate commerce or for any other purpose whatever." *49 Statutes at Large*, 543, 558–559 (1935).

[40] Prior to 1940 the Interstate Commerce Commission had jurisdiction over water carriers owned or controlled by railroads, and to a limited extent over those engaged in the transportation of passengers or property partly by railroad and partly by water when both are used under a common control, management, or arrangement for a continuous carriage or shipment. The Maritime Commission had jurisdiction over interstate commerce from port to port on the Great Lakes and along the coasts. Here it approved agreements between water carriers, and had authority to prescribe maximum and minimum rates for common carriers on the high seas and maximum rates for such carriers on the Great Lakes. In the intercoastal service the Maritime Commission had jurisdiction over contract as well as common carriers. It should be emphasized that the jurisdiction of the commission was limited in scope. It had no control over: carriers engaged solely in intrastate commerce, contract carriers except as provided by the Intercoastal Shipping Act of 1933, industrial or proprietary carriers, lines falling under the jurisdiction of the Interstate Commerce Commission, and carriers operating upon inland waterways other than the Great Lakes. Also worth emphasizing is that there was no control whatever of port-to-port rates on the riverways; no control of minimum rates on the Great Lakes or rivers, even in cases of joint rail and water shipments; no control over contract rates except in intercoastal service; virtually no control over the supply of water transport facilities; and regulatory jurisdiction was divided between the Interstate Commerce Commission and the Maritime Commission.

[41] The Maritime Commission was and continues to be primarily a promotional body as originally intended. It owns several steamship lines and administers the subsidization of the merchant marine.

[42] A similar exemption applies to motor transportation.

[43] It will be noted that this exemption is in terms of "transportation" rather than of "carriers." But it applies only when the commodities are loaded and carried without

contract carrier by water of commodities in bulk in a nonocean-going vessel on a normal voyage during which (1) the cargo space of such vessel is used for carrying not more than three commodities, and (2) such vessel passes within or through waters which are made international for navigation purposes by any treaty to which the United States is a party;[44] transportation by water of liquid cargoes in bulk in tank vessels; transportation by contract carriers by water which, by reason of the inherent nature of the commodities transported, their requirement of special equipment, or their shipment in bulk, is not actually or substantially competitive with transportation by any common carrier subject to Parts I, II, or III of the Interstate Commerce Act;[45] transportation in interstate commerce by water solely within the limits of a single harbor or between places in contiguous harbors, when such transportation is not a part of a continuous through movement;[46] transportation by craft of small size;[47] and water carriers engaged solely in transporting the property of a person who owns all or substantially all the voting stock of such carriers.[48] All these exemptions may lessen the detail work of the commission, and in the case of bulk carriers may be justified by the absence of substantial competition with other types of carriers;[49] but as indicated above, they result in removing much water transportation from regulation, especially on the rivers and Great Lakes.[50]

Subject to the exemptions, the commission has rather complete jurisdiction over both common and contract carriers by water.[51] Common carriers are required to obtain certificates of public con-

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wrappers or containers and are received and delivered by the carrier without transportation mark or count. Two or more vessels navigated as a unit must be considered to be a single vessel in order to effectuate the provision relating to the three commodities.

[44] Relates primarily to carriers on the Great Lakes that compete with Canadian lines.

[45] This exemption is by application to the Interstate Commerce Commission.

[46] Conditioned upon commission approval.

[47] Those of not more than 100 tons carrying capacity, or not more than 100 indicated horsepower, or carrying passengers only and equipped to carry no more than 16 passengers.

[48] This exemption requires a certificate of exemption from the commission.

[49] Lake cargo coal is of course competitive with railroad traffic.

[50] See Federal Coordinator of Transportation, *Regulation of Transportation Agencies*, 73d Cong., 2d Sess., Sen. Doc. No. 152, p. 7 (1934).

[51] The act specifically provides that its provisions apply to carriers owned or controlled by the United States. This includes the Inland Waterways Corporation. The rules governing intrastate rates are similar to those of the Motor Carrier Act.

venience and necessity before engaging in transportation, and contract carriers must secure permits.[52] Common carriers must provide adequate service, publish and observe reasonable rates, and establish reasonable through routes with rail and water lines.[53] Contract carriers are directed to establish and observe reasonable minimum rates.[54] Common carriers may not give undue preference to any person, port, description of traffic, etc.[55] Contract carriers may charge different rates to different people, but may not charge less than their minimum scheduled rates. Both common and contract carriers are subject to the usual accounting regulations, as well as to the general provisions of the Interstate Commerce Act governing consolidations, mergers, acquisitions of control and pooling.[56] Security issues and the service of water carriers are not subject to regulation by the commission.[57]

(4) *Board of Investigation and Research.* The act creates a Board of Investigation and Research of three members appointed by the

[52] A "grandfather" clause applies as of January 1, 1940. With the permission of the commission, a carrier may engage in both common and contract carrier service.

[53] Through routes may be established with motor carriers. When one of the carriers in a through route is a common carrier by water the commission shall prescribe such reasonable differentials as it may find to be justified between all-rail rates and the joint rate. This provision has no analogy either in parts I or II of the Interstate Commerce Act.

[54] The instructions relating to minimum rates for contract carriers now read as follows: "Such minimum rate or charge, or such rule, regulation, or practice, so prescribed by the Commission, shall give no advantage or preference to any such carrier in competition with any common carrier by water subject to this part, which the Commission may find to be undue or inconsistent with the public interest and the national transportation policy declared in this Act, and the Commission shall give due consideration to the cost of the services rendered by such carriers, and to the effect of such minimum rate or charge, or such rules, regulation, or practice, upon the movement of traffic by such carriers." *Public Law No. 785*, Title II, p. 47 (1940). This declaration indicates Congress' desire to protect common carriers. A proposal was made to write a more elaborate paragraph on minimum rates, but the commission stated that it had not yet had sufficient experience with such rates to justify the proposal. *House Hearings*, part 4, p. 1710 (1939); also *Letter from the Chairman of the Legislative Committee of the Interstate Commerce Commission*, 76th Cong., 1st Sess., p. 7 (1939).

[55] A difference in the rates of a water carrier with respect to water transportation and those of a rail carrier with respect to rail transportation may not be deemed to constitute unjust discrimination, prejudice, disadvantage, or unfair competitive practice within the meaning of any provision of the act.

[56] This means that water carriers may consolidate with other water, rail, or motor carriers, upon approval of the commission.

[57] Water carriers put at a disadvantage by reason of competition with lines engaged in foreign commerce may be relieved by the commission from the provisions of the act to the extent necessary.

President, with the advice and consent of the Senate, to serve for a period of two years.[58] The board is required to investigate: the relative economy and efficiency of rail, motor, and water transportation; the extent to which right-of-way or other transportation facilities and special services have been or are provided from public funds for the use of the three types of carriers within the United States; and the extent to which taxes are imposed upon the three classes of carriers. The board is not an arm of the commission.[59]

(5) *Rates on Government Traffic.* The United States is required to pay full applicable commercial rates for the transportation of persons or property, and the full rate fixed by the Interstate Commerce Commission for the transportation of mail.[60] This provision was recommended by both committees and received the approval of the commission itself.[61] Though it is probably justified under the circumstances, it cannot be defended merely on the ground that the preferential rates have already saved the government an amount equal to the commercial value of the railroad lands at the time of grant.

(6) *Amendments to the Reconstruction Finance Corporation Act.* The provisions under this heading authorize the Reconstruction Finance Corporation to make loans to the railroads, within the limit of $500,000,000[62] for all railroads at any one time, after approval and certification by the Interstate Commerce Commission that the

[58] The period of service may be extended not more than two years by proclamation of the President.

[59] A board of the type referred to above was highly recommended by the commission, which did not favor a permanent administrator within the commission, as proposed in H. R. 2531, or a board that engages in regulatory duties, as recommended by the committee of Six. The commission pointed out that promotional work is essentially different from regulatory work and that a temporary board might attract men not available on a permanent basis and would provide an opportunity to determine the best type of organization for promotional purposes.

[60] This provision does not apply to the transportation of military and naval property of the United States moving for military or naval and not for civil use, or to the transportation of members of the military or naval forces when such members are traveling on official duty. And the railroads may enter into contracts for the transportation of the United States mail at rates below those fixed by the commission.

[61] To benefit from the provision, railroads that received land grants are required to file a release of any claims against the United States as to lands, etc.

[62] Was $350,000,000.

borrowing carrier may reasonably be expected to meet its fixed charges without reduction thereof through judicial reorganization.[63]

IV

In the light of the foregoing analysis, it can be concluded that the "omnibus" Transportation Act of 1940 was a step in the right direction but that it was not a culminating enactment. In other words, there are valid arguments both for and against the act as finally passed.

On behalf of the new law it may be said, first, that it supplemented and made several desirable changes in the Interstate Commerce Act. The changes likely to produce the most significant results are three: (1) centralization of federal regulatory authority over rail, motor, oil pipe line, and water transportation in one body;[64] (2) extension and clarification of federal control of common and contract carriers by water, particularly with reference to the supply of transportation facilities and minimum rates;[65] and (3) establishment of a board of investigation and research.[66] Less important changes are the elimination of land-grant rates,[67]

[63] Commission approval is not required in cases of purchases or guaranties of railroad obligations made for maintenance or purchase of equipment by railroads not in receivership or trusteeship. The Committee of Six had recommended that the requirement of commission certification as to fixed charges be eliminated altogether, but the commission was opposed to this change in the law even for a temporary period. Loans may be made to receivers and trustees, although the commission expressed doubt as to the wisdom of such loans.

[64] This will make it possible to reduce the cost of regulation and to apply a uniform policy to all forms of transport. Due to these advantages, it might have been wise to carry unification of regulation a step further by bringing air carriers under the jurisdiction of the Interstate Commerce Commission, as recommended by the Federal Coordinator of Transportation in *Regulation of Transportation Agencies*, 73d Cong., 2d Sess., Senate Document No. 152, p. 53 (1934). The step was not taken, however, because of opposition from air transport companies, general satisfaction with the Civil Aeronautics Act as written, and lack of substantial competition between air lines and other types of carriers that operate at much lower cost.

[65] This closed significant gaps in regulation and should greatly facilitate coordination in transportation. See D. P. Locklin, *Economics of Transportation*, ch. 36 (1938). Authority to require certificates of public convenience and necessity (or permits) and to fix minimum rates seems essential to the attainment of coordination in the broad sense.

[66] It is probable that the creation of this body will prove to be a very significant provision; for the board is directed to ascertain certain facts essential to rate making and to future legislation in the field of transportation.

[67] Estimated to increase the income of the railroads about $7,000,000 per year. Land-grant

and the substantial increase in the lending power of the Reconstruction Finance Corporation.[68]

In favor of the legislation of 1940 it may be said, second, that it wisely deferred action on a number of questionable proposals. Most of these proposals have already been discussed, but they may be summarized here as follows: revision of the rule of rate making so as to make the revenue needs of the carriers the sole consideration in fixing rates; division of the authority of the Interstate Commerce Commission, by setting up a second regulatory board;[69] outright repeal of the long-and-short-haul clause; further curtailment of the authority of the states over intrastate rates;[70] imposition of tolls for the commercial use of certain inland waters;[71] abolition of the Inland Waterways Corporation;[72] relief of the railroads from unjust state and local tax burdens;[73] and establishment of a single court of railroad reorganization.

The chief adverse criticism of the Transportation Act of 1940 is

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rates were special rates (usually 50 per cent of the regular rates) that the railroads were required to charge for government traffic over land-grant mileage as a condition of the receipt of grants of land from the government.

[68] This is of course only palliative.

[69] The disadvantages of this proposal are obvious, though argument was offered to the effect that a second board was needed because the commission has already decided that much railroad plant is obsolete.

[70] Curtailment was to be accomplished by authorizing the Interstate Commerce Commission to bring the level of intrastate rates into line with interstate rates at the time the latter are changed, thereby placing upon the state commissions the burden of justifying a different intrastate level. Though this change in procedure would doubtless have expedited rate adjustments, it was not put into effect, not only because it was bitterly opposed by the state commissions, but also because it was unnecessary on account of the general practice of the commissions in readjusting intrastate rates practically as soon as interstate rates are modified. It seems clear that voluntary cooperation in this way is preferable to enforced compliance, even at the cost of some delay. It may also be observed that in certain instances a difference in the levels of interstate and intrastate rates is justified. *Letter from the Chairman of the Legislative Committee of the Interstate Commerce Commission*, 76th Cong., 1st Sess., p. 14 (1939).

[71] Levy of tolls would have all the advantages of placing the improvement of waterways on a user basis, but it would be very difficult to decide what the charges should be. Decision would require more information than is now available.

[72] Though potentially wasteful, direct government competition can force transportation rates to a lower level than can be ordered by a commission. Such competition therefore supplements our none too successful program of public regulation.

[73] Question arises as to how far Congress could go in relieving the railroads from state and local taxes. More can probably be accomplished through direct court action by the railroads themselves.

that it failed to make certain needed changes in the legislative structure. Important among the particular sins of omission are the following: failure to authorize the commission, after hearing, to *require* consolidation and pooling;[74] failure to omit the restrictions relating to competition and labor in cases of railroad unifications;[75] failure to touch upon the problem of subsidies in wording the rules of rate making; lack of stricter requirements in exempting water carriers from regulation; and finally, failure to relieve the railroads of disproportionate costs in grade-crossing eliminations. Representatives of the railroads would include here the failure to cover several other proposals, but in the opinion of the writer Congress' refusal to agree fully to the recommendations of the Committee of Six was highly commendable. So far as the railroads are concerned, of course, full agreement might have been advantageous, though as pointed out later it is not certain that all of the proposals would have been in the interest even of the railroads in the long run.

On the basis of Congress' failure to legislate on the railroads' proposal just referred to, and in view of the doubtful character of some of the provisions of the Act of 1940, one may hazard the prediction that additional federal transport legislation will be forthcoming within the next few years unless it is prevented by the national defense program, or is made unnecessary by a return of general prosperity to the railroads. The railroad spokesmen probably feel that they were none too successful in putting across their program and are therefore likely to continue agitating for still more relief at the hands of Congress.[76] Furthermore, there

[74] It seems certain that real gains could be realized through pooling, but it is next to impossible, on account of diversity of interests, to secure unanimous carrier agreement upon definite proposals. On the other hand, it can be argued that natural evolution through voluntary action is the safer policy.

[75] The restriction as to labor is no longer as necessary as it was prior to the agreement between the companies and the unions concerning retirements.

[76] There appears to be a growing tendency on the part of the regulated industries to fly to the government for assistance in times of stress rather than look to themselves for relief. This tendency is perhaps natural, but it should be emphasized that the currents of economic change are stronger than law and that about all that can be accomplished through legislation is a softening of the impact of change. All this becomes clear when one calls to mind the underlying explanation of the present depression in the railroad industry. Such explanation is the severe and continued decline in the demand for railroad service due to: business depres-

is good reason to believe that the studies of the "board", commission experience in administering the law, and court interpretation of the act, will sooner or later point to a need for new legislation.[77] So long as economic conditions change, it cannot be expected that the work of legislation will ever be finished. For this reason the apparent shortcomings of the Transportation Act of 1940 should be viewed with a sympathetic eye, at least until the commission has had more experience in administering the act.

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sion; competition from other forms to transport; decentralization of industry; decline in the rate of growth of population; substitution of natural gas, electricity, and fuel oil for coal; and substitution in the building industry of materials that require short hauls for those that require long hauls. Contributing as distinguished from underlying factors are as follows: the great volume of railroad indebtedness; financial exploitation; slowness of management to appreciate the dangers of competition; failure to modernize plant; construction of expensive terminals; improvident building of lines; and substantial increases in railroad wages. With these factors in view, it is more or less obvious that the opportunities for improving the condition of the railroads through legislation are limited. Accordingly, it is folly to anticipate much relief through the Transportation Act of 1940. See *House Hearings*, part 4, p. 1702 (1939).

[77] It may be necessary to regulate "forwarding carriers." The act of 1940 did not provide for such regulation, probably because the commission was divided within itself as to whether regulation should be undertaken at present. *Letter from the Chairman of the Legislative Committee of the Interstate Commerce Commission*, 76th Cong., 3d Sess., p. 77 (Jan. 29, 1940).

THE EFFECT OF OVERHEAD COSTS UPON THE STRUCTURE OF THE AMERICAN ECONOMY[1]

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I

The measurement of overhead costs in American industry is peculiarly difficult. The only way of arriving at such an estimate is through the *Census of Manufactures* which shows the value of net output and the total wages paid in each industry. As the value of net output is defined as the gross receipts minus the cost of the materials and fuels consumed in the course of production, a rough picture of the size of overhead costs can be obtained by subtracting the total wages bill from the value of net output, assuming that each industry is in such a state of prosperity that all costs of production are being met. The crudity of the estimate is occasioned by the fact that the value of net output is, in part, based on the selling value and not on the cost of production of the commodities turned out. Therefore, an estimate of the size of overheads, obtained by subtracting wages from net output, would include the following foreign elements: (1) the net profits earned;[2] and, (2) in cases where separate sales departments are not operated, the cost of selling the article as well.[3]

[1] In this article, many of the illustrations are from English sources. This is due to the fact that the illustrations which the author has so far been able to collect of American conditions are generally less effective than those which he was able to obtain during the eight years he spent studying British industry. However, such studies as he has made since his return to the United States have only tended to confirm his conclusions based on tendencies observable in a somewhat less advanced mechanical economy.

[2] Information regarding the size of net profits for a selection of firms in a few industries is available from the *Survey of American Corporations.*

[3] Where separate sales departments are operated, the value of the gross output is the reported value of the products at the time that they are turned over to the sales departments. The *Survey of American Corporations* gives incomplete information of the cost of selling by manufacturing concerns, but since these costs do not normally complicate our returns, there is

On the other hand, many overhead items (such as the wages paid to repairmen, toolsetters, toolroom workers, furnacemen, cleaners, gardeners, canteen workers and the like) are included in variable costs rather than in overheads, while other items (like the materials that are used, not in direct production, but in the creation and repair of tools) are excluded entirely from the calculations on the ground that they are not a part of net output. Another group of items which have not been included with overheads, but which ought to have been added to them, are the fixed expenses arising from heating and lighting the factories engaged in production. The census authorities show the value of fuel and electric energy consumed, but they do not distinguish between fixed and variable fuel costs. In the circumstances, it was considered best to omit the item from net output entirely, since otherwise it would overweight either running costs (excluding raw materials), or overhead charges.

If it were possible to make these adjustments to the census figures, however, it is thought that the final result would leave the proportion of overheads either unchanged, or, if anything, make it larger.[4] For, while each individual refinement might affect the proportion, the total effect, first, of subtracting indirect wages from variable costs; second, of adding to overheads (a) fixed fuel costs, (b) indirect wages, and (c) any raw materials used by the factory in the creation of capital goods; and third, of subtracting from overheads (a) total net profits, and (b) the cost incurred in selling their products, in the case of certain firms that do not maintain a separate sales department and cannot deduct this expense so as to give an accurate gross output valuation, would, probably, cancel each other out.

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little point in repeating the survey's imperfect results here. For one thing, it could only be presented as a percentage of gross output, and not of net output. Moreover, the entry excludes the administrative selling expenses which are included only as elements in a general miscellaneous category. Sometimes, the "cost of sales" runs as high as 32.4 per cent of gross output, though in the 1937 survey, the median was 14.4 per cent.

[4] It is not intended that it should be thought that the total amount of wages, after adjustment, is considered as equal to total variable costs expressed numerically. It is asserted, however, that wages represent total variable costs (excluding the cost of raw materials) solely when expressed as a percentage of net output. Throughout this paper, variable costs are to be construed as excluding the cost of raw materials.

But even the picture that would then be obtained of the proportion of overheads in net output would not completely represent the importance of overhead costs in modern industry. For example, in industries like the assembling of electric light fixtures, in which production is carried out mainly by process workers rather than by machinery, overheads are of immense importance, even though the proportion of variable costs in net output is far higher than overheads. For, if the flow of production is disorganized, direct wages become overheads to the extent to which output in any of the departments falls below the output normally expected for the minimum wage obtaining in that industry, provided the workers are not dismissed when the output falls below that level.[5] Of course, disorganizations in production of this magnitude occur rather infrequently these days, but their rarity is, at least in part, due to the vigilance with which the management seeks to avert the danger of direct wages becoming overheads, through its own negligence, and testifies to the increasing importance of direct wages as a potential overhead, as the specialization of tasks proceeds.

Disregarding this qualification for the moment, however, an analysis of the relative importance of overheads and variable costs, obtained by subtracting wages from net output in the census returns, indicates that in less than 4 per cent of the manufacturing industries of the country was variable cost more than 5 per cent of overheads. On the other hand, in nearly 90 per cent of the industries of the nation, overheads were of greater importance than variable costs, and they constituted 60 per cent or more of net output for 59.4 per cent of the industries of the country. In nearly 40 per cent of the industries, overheads were at least twice as large as variable costs; and in 23 per cent of the industries overheads were at least three times as large as variable costs. In over $12\frac{1}{2}$ per cent of the industries, in fact, overheads constituted more than 80 per cent of net output, and even in $2\frac{1}{2}$ per cent of the industries, more than 90 per cent of net output.

[5] The assumptions are: (1) that the firm is engaged in interstate commerce and, so, subject to the Hours and Wages Act, and (2) that the minimum wage represents the highest wage which an employer can profitably afford to pay a worker who is capable of producing only that return (whatever the cause of it may be).

It will be noted that the calculation of the importance of overhead costs is based on the assumption that industry is sufficiently prosperous to cover all production costs. This assumption would

TABLE I

NUMBER OF INDUSTRIES, AND VALUE OF PRODUCTS THEREOF, DISTRIBUTED ACCORDING TO THE RATIO OF OVERHEADS TO NET OUTPUT, 1939

PERCENTAGE IMPORTANCE OF OVERHEAD COSTS IN NET OUTPUT	NUMBER OF INDUSTRIES IN EACH GROUP		PERCENTAGE IMPORTANCE OF GROSS OUTPUT OF EACH GROUP TO VALUE OF GROSS OUTPUT OF ALL INDUSTRIES	
	Number	Cumulated Percentages*	Group Percentages	Cumulated Percentages*
20– 24.9	7	1.6	0.32	0.32
25– 29.9	2	2.0	0.02	0.34
30– 34.9	6	3.3	0.07	0.41
35– 39.9	6	4.6	1.85	2.26
40– 44.9	13	7.5	1.57	3.83
45– 49.9	33	14.9	6.70	10.53
50– 54.9	62	85.1	18.23	89.47
55– 59.9	70	71.2	11.85	71.24
60– 64.9	80	55.5	19.97	59.39
65– 69.9	50	37.5	7.19	39.42
70– 74.9	41	26.3	8.92	32.23
75– 79.9	31	17.1	10.82	23.31
80– 84.9	21	10.1	5.52	12.49
85– 89.9	15	5.4	4.61	6.97
90– 94.9	4	2.0	1.03	2.36
95–100.0	5	1.1	1.33	1.33
Total.........	446	100.0	100.00	100.00

* In each case from each end to 50 per cent.

Source: Calculated from *Census of Manufactures (Preliminary Report)*, 1939.

Note: The great increase in the figures for 1939 over that for 1937 is largely accounted for by the fact that: "The 1939 schedule, for the first time, called for personnel engaged in distribution, construction and other activities carried *on at the plant*. . . . Employees of the plant engaged in distribution and construction and other activities in 1939 are not included in the preliminary report. . . . " The 1939 figures, therefore, more closely approximate to the true burden of overhead than do the 1937 figures, since the wages of the distributive and construction workers could, for the first time, be excluded entirely from the calculations, when hitherto they were included with wages, and hence, with running costs.

seem to be warranted as the total income of the manufacturing industries in the United States was larger in 1937 than in 1926 or 1927, and only 2.8 per cent less than in 1928. If it were not, the size of overheads would be larger than indicated.

To a manufacturer these figures of the relative importance of overheads have frightening significance. In highly competitive industries, in which production is very seasonal or in which mechanization is proceeding very rapidly, the burden of overheads is particularly heavy. In the former case, it is due to the fact that a machine cannot be discharged in slack periods, and that the productive period within which annual overhead charges can be met is considerably shorter than normal, and, in the latter case, because a high invention rate enormously increases overhead costs, *inter alia*, through the allowance that must be made for obsolescence.

And the effect of overheads upon industry in general is of even more serious significance, for the result is more widespread. In this case, once full production has been obtained, the effect of overheads is to freeze a firm's overhead cost structure per unit of output, and, excluding the possibility of abnormal speed-ups, to render this part of costs virtually irreducible, except at the price of still further mechanization, still further increase in total overhead costs and the introduction of still further rigidities in a manufacturer's cost schedule. Moreover, such reductions in cost can only be made after a considerable lapse of time, so that high overhead costs tend to limit the rapidity with which a manufacturer's costs can be brought into line with downward fluctuations in price.

II

Consequently, it has been increasingly the ideal of the manufacturer to find means of reducing the total amount of unit costs by a reduction of overhead charges per unit of output, and to render cost schedules more adaptable to shrinkages in demand and prices. The latter objective has been sought partly by reducing the relative importance of fixed costs in the unit price of manufacturing an article, as they always tend to shoot up when demand and, thereby, production decline; and, partly by substituting items which may be released from service when not needed, or whose remuneration for such service may be reduced when prices fall.

One method evolved has been the utilization of large capacity equipment rather than small capacity equipment in factory pro-

duction.[6] The saving on overheads here takes the form not only of the utilization of floor space to a fuller extent (thus saving on overheads) but, more important, a decrease in the capital outlay required on the per unit capacity of the machines installed. The unit capital outlay involved in purchasing a Diesel stationary engine with a capacity of 100 kilowatts, for example, is 123 per cent greater than one with a productive capacity of 10,000 kilowatts. Similarly, the unit capital cost of boilers capable of producing one million pounds of steam per hour is less than one-half that of a boiler with one-tenth of the capacity.

In addition, appreciable savings, both on the amount of fuel used and on the cost of obtaining a given output, will result if a large machine is used and it is worked close to its potential output, due to the greater engine efficiency of such a machine. Thus, the engine efficiency of a non-condensing turbine of one-kilowatt capacity is 65 per cent, while the engine efficiency of an engine with a 4,000 kilowatt capacity is 72 per cent. Similarly, the engine capacity of a 1937 one-horse-power Westinghouse electric motor is 76 per cent; 90.7 per cent for a 250 horsepower motor; and 93 per cent for a 1,000 horsepower motor.

Another means that has been found of obtaining a reduction of the present magnitude of overhead costs per unit of output, or at least of impeding any further advance, has been the installation of automatic devices to improve the operating efficiency of plant machinery. The large savings in overhead costs which are normally possible through the installation of measuring, recording or controlling devices, arise from the fact that these instruments result in the maintenance of a vigilant automatic watch against both breakdowns of machinery, and breakdowns of parts, either through their rough or careless handling by the operators, or through overloading the machine's capacities. It is also possible for a manufacturer to secure a continuous output from each machine with these devices, thus saving on non-productive overheads during breakdowns, and lessening the total amount of repair work which needs to be done during the life of each machine. This is

[6] The material contained in the next four paragraphs was obtained from George Perazich *et al.*, *Industrial Research and Changing Technology*, passim.

the reason that while, in 1921, $5 out of every $1,000 invested in machinery was spent in the purchase of automatic controllers and other devices the ratio had increased to $10 by 1929, and continued to grow until by 1933, the amount invested in machine instruments equalled $15 per $1,000 invested in machinery, even though the production of machinery during the depression had declined.

The successful utilization of this method of reducing the importance of overheads in total unit production costs, however, is directly dependent for its success upon the use of large capacity machinery. For, while normally a large machine will readily justify the expenditure of money on refinements and devices to improve its operating efficiency, the loss of potential capacity through the failure to utilize automatic devices on a small machine is not large enough to make the expense of providing such attachments worth while.

But while large capacity machinery has been utilized by many manufacturers as a brake upon any further increase in the importance of overheads in total production costs, there are not only several factors, some of which have already been mentioned, that limit the rate of substitution of larger capacity machines for smaller ones, but also several factors that tend to increase the burden of overheads by limiting the completeness with which large capacity machinery may be utilized.

An example which will cover both qualifications is the fact that a high invention rate in an industry enormously increases both overhead expenses through heavy obsolescence charges, and, at the same time, limits the relief that can be obtained from the use of large capacity machinery with its low unit investment outlay and other attractive features that reduce overhead expenses. This is continually happening in new industries like the motor vehicle trade. The Ford Motor Car Company was forced during the years 1929–1937, most of which were depression years, to scrap 175 million dollars' worth of "perfectly good plant and equipment" at its Detroit works on the grounds of obsolescence.[7] And, despite the fact that its overhead costs reach the staggering figure of $350 a minute, the English Austin Motor Car Company calcu-

[7] E. G. Nourse and H. B. Drury, *Price Policies and Economic Progress*, pp. 146–7, n.6, citing W. J. Cameron, speaking over the N.B.C. Network, Mar. 7, 1937.

lates that to retain its competitive position, it makes an average of 60 changes in its production technique every working day.[8] It is hardly surprising, therefore, to learn that from a quarter to a third of the gross profits of the Austin and Morris companies goes to maintenance and depreciation, or that the life of ordinary machines in this English industry are estimated at from 10 to 15 years; the more specialized ones from 7 to 10 years; and the highly specialized equipment designed for the production of single models, from only 2 to 5 years.[9] A general questionnaire issued to about 200 corporations by the National Bureau of Economic Research in 1928 showed that nearly two-thirds of those having definite depreciation policies for their machinery anticipated the profitable life of their equipment at 3 years or less, over two-fifths at 2 years or less, and 97 per cent at 5 years or less.[10] Finally, calculations from a table compiled by a Dutch writer indicate that the economic life of the machinery listed is only one-half to two-thirds of the technical life, the most common ratio being about two-thirds.[11]

The burden of overhead costs upon unit production expenses, and the difficulty of decreasing these by increasing the capacity of the machinery or installing automatic devices is also magnified in industries where production is highly seasonal for, as previously explained, the obsolescence and depreciation of machines must be met every year, despite the fact that for the greater part of each, they may, in such industries, have been lying idle.

Moreover, breakdowns of machinery increase the burden of overhead charges phenomenally whenever they occur on large machines, certainly to a much greater extent than if a machine of smaller size and costing a large amount of money per unit of

[8] Perry-Keene, "The Office's New Function," Reprinted from *Office Economics*, Feb., 1936, p. 7.

[9] F. G. Wellard, "Plant Depreciation and Replacement Problems," *Proceedings of the Institute for Automobile Engineering*, Jan., 1931, p. 250.

[10] S. Fabricant, *Capital Consumption and Adjustment*, pp. 70–1.

[11] *Ibid.*, p. 72 citing Ir. H. Vos, "Conjunctuurcyclus en Techniek," *De Socialistische Gids* (1932), p. 856–64. On the other hand, according to an author writing in 1931: "A recent survey of an engineering works revealed that 11% of the machine tools had been in service for more than 80 years (though) no one class of machinery has been the subject of so much development as machine tools and more particularly, within the past 15 years." J. F. Whiteford, *Cost Reduction and Wages Reduction*, p. 9. However, this may be a case of arguing from the particular to the general.

capacity were to have been rendered idle. Consequently, in an industry where machines are just in the stage of further perfection, the use of larger capacity machines normally tends to increase rather than decrease both unit costs and the importance of overheads in their composition, due to the frequency of such breakdowns and the length of time needed to make repairs. Therefore, in such an industry, the desirability of securing the longest possible runs of machinery at the maximum feasible speed, increases at an accelerated rate with the increase in the minimum cost of such machinery while, in industry generally, the importance of securing continuous runs increases directly with the capacity of the machines used in production operations.

Moreover, the use of automatic devices and the further mechanization of industry in an attempt to reduce the importance of overheads in unit output costs either by speeding up production or limiting breakdowns have often not diminished at all their relative importance either to total unit costs or to wages in modern industry. For while they produced appreciable savings in the capital outlay per unit of capacity, they usually also made possible drastic savings in the amount of direct labor employed, thereby, either leaving overheads in the same relative position to total costs of production, or to wages, as had previously existed, or greater than ever before.

III

The reduction of the relative importance of overheads, therefore, has not, so far, successfully been sought in further technical improvements designed either to speed up output or to render overheads per unit insignificant at the same time as the total size of overheads is increased. Some manufacturers, therefore, have tended to turn their attention to variable costs, and have tried to see what could be done through these factors to increase output, reduce total unit expenses, decrease the importance of overheads, and increase the ratio of variable costs.

Taking industry as a whole, at least two discernible means have been adopted to deal with the problem. One has been the horizontal specialization of industry, by which industry at one stage of production buys semifinished goods as its raw materials for further

manufacture. Thereby, while the relative proportion of overheads may not be affected, it enables such manufacturers to cut down the total burden of fixed charges which it represents, and enables them to pass on any reduction in the volume of demand or of price to their raw material suppliers, shifting the risk of heavy total overhead charges to them so far as possible. For even when the prices they are receiving for their products decline, they are still in a strategic position to maintain their manufacturing margin, by cutting the prices they pay for their semifinished goods, and they are free of the additional worry of how to meet the overhead charges on the machines that produced these semifinished goods, which would have been theirs, had they been vertically integrated. The horizontal specialization of industry financially, however, does not provide a solution to the overheads problem but merely spreads its incidence among a larger number of manufacturers, and increases the number of stages involved in the production of goods and services. And, often, the number of transportation and transfer sales problems that it causes, and the removal from the manufacturer of the final product of immediate control over the methods of manufacturing the intermediate product used, results in the creation of still greater problems than its adoption solves.

The other way has been to analyze the cost schedules of the products they produce to discover what items can be substituted for fixed costs, so that, when they are not needed, they can be released from service or given a reduced remuneration. The only item of this type in variable costs is labor, and its substitution for machines has been tried from time to time. But, despite the savings that can sometimes be obtained, either by laying off hands or reducing their remuneration, the substitution of hand labor for machinery has been found impracticable, usually because the cost of turning out the article by hand is now either impossible, or likely to increase total unit costs enormously. Equally, the reduction of wages in an attempt to reduce total costs is also likely to have little effect, or, possibly, even an adverse one. Usually, the workers' discontent with such reductions of wages is likely to increase overheads through a reduction in output over time either because the inducement to produce at the maximum possible rate is no longer sufficient, or because of a deliberate policy on the part of

the workers to slow down output until the wage rates are restored to the previous level. Moreover, such a policy would increase the extent to which there is a danger that direct wages may, at times, become overheads and increase the incidence of the effect that it would produce at such times.

Under modern industrial conditions, therefore, the reduction in overhead charges per unit of output (and, hence, in total unit costs) can best be obtained by running machines at the greatest possible speed consistent with continuous working, so far as the volume of demand for the finished product permits. Consequently, the effect of overhead costs is to tie up each productive worker to a large amount of fixed capital, and low performance on his part is expensive because inefficient labor means increased overhead costs per unit of output, and therefore, greatly increased total unit costs.

IV

It is obvious from the whole of the previous discussion, therefore, that timesaving is the keynote of efficient production in modern industry, and is expressed in variable cost by making every effort to induce the worker to give the maximum sustained production possible whether it be by dealing with the contributory factors which make for speed in output such as the provision of optimum physical conditions of work in the factory, or even in the home; by subdividing work until each worker has only one, usually repetitive, process to do; by providing conveyors and overhead chains to take the work and tools directly to the worker and, incidentally, set the pace of production; or, by getting the worker himself to make the maximum effort, either by inducements such as bonus payment systems and departmental competitions in output or by forcing the pace through speeding up the conveyor belts, or putting the worker under the constant surveillance of petty foremen. Moreover, it is the object of the manufacturer not only to save time on production, but to keep the worker at the highest level of output that he can maintain, by reason of the fact that variations in output necessitate greater capital expenditure for more machines, etc., to secure the same rate of output, and that, conversely, wherever the capital outlay is fixed, any slowing

down of output below the maximum level that can be sustained has the effect of greatly increasing the size of overheads, and through them, the size of total unit costs, above that which previously prevailed.[12]

In addition, whenever wages are not completely on a payment-by-results basis, any disorganization of production has the effect of turning the wages of workers on direct production from a variable cost to a fixed charge, in so far as their output falls below the minimum wage they receive for this type of work, and in so far as they cannot be laid off until production again flows unchecked. And a uniform maximum output is as necessary in assembly work where work is still in the hands of labor, as where it is carried on by machinery. For the efficient performance of production in a factory having an immense subdivision of work is dependent upon the perfect dovetailing of the flow of output between each section of the task, and if for whatever cause the steady flow of parts is broken, wages in all other departments become a part of overheads rather than of variable costs, to the extent to which work falls below the expected rate of output on which the minimum wage payable was calculated. Therefore, the whole factory must be geared for "making hay while the sun shines," and everything must be made to subserve that purpose, including labor.

For today huge profits are obtained not through a large spread between costs and selling price, but through a small spread with large sales. Because of the existence of competition between complementary products, particularly in the luxury sphere, the price of a commodity is nowadays set, not in terms of the probable costs of production, but in terms of the demand that will result from keeping a plant operating at closest to capacity at a given price. The process is known as "meeting the market." Obviously, if a manufacturer is thereafter to remain solvent, he must break down his total costs of production into the unit costs of every operation making up the article, so that every operation is in proper economic relation to the whole. For every operation

[12] Perry-Keene, *loc. cit.*; D. D. Kennedy, *Overhead Costs and the Shift to Machinery*, p. 65 and 92; J. F. Whiteford, *Cost Reduction or Wage Reduction*, p. 27; C. E. Peitell, *Cost Reports for Executives*, p. 95.

there must be a maximum production price and a predetermined one.

To accomplish this, continual analyses are made of the production time spent on the articles produced by each operation. At the Austin Motor Car Company Works at Birmingham, England, for example, 1400 analyses a minute are made of the cost of their processes. They automatically reveal the machines and workers specifically responsible if the contributions expected from each process to the total profits are not to be forthcoming. Today, it is both possible and necessary for accounting to be done while the tool is cutting, so that losses in production time, and the resultant changes in overheads can be corrected while they are occurring. This, of course, is an extreme example of managerial efficiency, but it is a good guide to what, increasingly, is a general tendency.

But there are other reasons besides the necessity of reducing overheads, and hence total costs, per unit of output, that render it urgent to secure the highest possible output consistent with continuous operation. One is the fact that there is an increasing tendency for factories to cater directly to the retailer and to cut out the wholesaler entirely. This removes the cushioning effect of the existence of wholesalers' stocks in meeting fluctuations in demand on the part of the consuming public. Another is that the burden of overhead costs has been further increased by general reluctance on the part of retailers to hold large stocks of commodities. This is partly because the increasing varieties of goods which are offered to the consumer through modern refrigeration, canning and transportation, is so great that the retailer prefers to hold only a small stock of each brand of a commodity on his shelves, and to rely on the factory to supply him, at short notice, with any extra quantities that may be required. To carry heavy stocks of goods on hand means to tie up capital at great risks, and with no immediate returns, when it could be earning money in other ways. Equally responsible for the spread of this practice were the serious trading losses suffered, during the fall of retail prices in the immediate post war years and particularly during 1920–21, by merchants who followed the practice of holding large stocks. What was necessity then is now a habit, and the standing order has given way to a regular stream of hurried telegraphic and telephonic rush orders.[13]

[13] On this question see Leverett S. Lyon, *Hand-to-Mouth Buying*.

This, and the tendency for the factory to cater directly to the retailers' needs, have between them had the effect of considerably reducing the lag between the observable change in the consumers' demand for the final product and the time taken in relaying it back to the manufacturer in terms of the volume of orders that he is asked to execute. Therefore the period within which a manufacturer is able to make readjustments to meet an increased demand on the part of the consuming public has been considerably reduced, and has increasingly to be met by speeding up output.

At the same time, manufacturers themselves desire to avoid holding large stocks of finished goods in the factory, for it means unnecessarily tying up large amounts of capital upon which no return is being earned. Moreover, the finished products of most factories are bulky and so consume a large amount of expensive floor space; they double the cost of handling the goods to be moved; and they require the maintenance of a force to guard against pilfering. Moreover, a fresh appearance in a product is very important nowadays, even though the commodity to be sold is canned and, therefore, designed to be kept, with the result that the rate of loss arising in this way is bound to be high. Moreover, many important industries today produce semi-luxury goods and such goods are rather hazardous investments to hold because of their high obsolescence rate. Another factor of some importance in many industries is that the rate of fashion change or the rapid increase in inventions makes it desirable to keep the amount of stocks held on hand down to a minimum. Designs are constantly changing and stock still unsold at the end of the season will fetch only the most modest prices. All of these factors together have speeded up the production schedule of the manufacturer considerably.

V

To secure consistent adherence to this schedule, it is definitely necessary that labor should be amenable to the dictates of the management, which, in turn, involves the absence of the trade union spirit among the workers. For labor unions tend, from the nature of their purposes, to be opposed to speeding up, to improvements in the methods of work, and to technical innovations. This is due almost entirely to the fact that trade unionism is essentially an attempt at monopolization of the labor supply of a particular

trade and, therefore, that its prime purposes are to retain that trade as the preserve of the workers already doing that type of work, and to secure wage increases, shorter hours and better working conditions for the workers engaged therein. The reasons for this are too well known to economists to need further elucidation.

The opposition to technical innovations which is manifested by the unions is, however, seldom direct: it differs in intensity with the inevitableness of the specific change sought, the strength of the union at the time, the probable attitude of the general public towards the union's potential policy, and the disruption which the innovation is expected to cause to the wage level, and the amount of alternative employment available to its membership. For the trade unions found, quite early in their history, that a policy of direct opposition to technological innovations seldom succeeded either in stopping their introduction, or in protecting the wage level, working conditions or jobs of the workers. Therefore, except in rare cases, the union's policy, generally, has been not so much one of opposition to the innovation itself, as an attempt to reduce to a minimum any immediate net advantage which may be expected to accrue to the employer—at labor's expense—by the introduction of new machinery or processes.

Occasionally, for strategic reasons though not as a matter of fundamental policy, trade unions have entered into agreements to help increase the operating efficiency of a factory. In such cases, the unions have generally insisted that, as a condition of their cooperation, these factories will provide: definitely, (1) for the regularization of production and employment, or the assurance that no dismissals will result from the workers' participation in the solution of managerial problems; (2) for the right of the unions to participate in setting the new standards of output which may be demanded; (3) for the full recognition of the unions by the employer, and the assurance that it will be recognized as the collective bargaining agency of the workers who will man the new machines; and, less strongly (4), for a guarantee that labor shall share in the profits arising from the increase in productivity which is expected.

Irrespective of whether a policy of opposition or cooperation is adopted, such conditions of cooperation naturally result in pushing

up overheads, and hence total unit production costs, tremendously. Therefore, increasingly, employers have been forced to resort to a liberal wage policy in an attempt to impede the introduction of trade union practices among workers. This has been done first, by increasing the wage rate, and then, when a favorable mental attitude had been created in the minds of the workers, "creating the conditions of work, whereby the worker may, through his own productivity, earn a greater wage." Most employers have, paradoxically, found this is the cheapest way to reduce overhead costs per unit of output. Due to the fact that, in most cases, wages are now of increasingly smaller importance in the cost of production, it may be possible to obtain a great increase in output by a small increase in the wage rate which, by spreading fixed costs over a vastly increased output, greatly decreases total costs per unit of production.

VI

It is, of course, a moot question, whether the weapon which the decrease in the importance of wages in total unit production costs has put into the hands of the employer in fighting the spread of the trade union mentality amongst his workers will compensate, even partially, for the increase in his own vulnerability to trade union assaults consequent to the growth of fixed costs. For overhead costs can be kept at a minimum, and the need for a smooth production schedule to satisfy an insistent demand can be met, only if each part of a vast number of departments contributing to the production of the final department all work smoothly. A well-disciplined lightning strike, particularly "a go-slow" strike repeated at staggered intervals can wreak havoc with cost schedules and the flow of orders to be filled, far more than if the workers were to go out on strike and stay out until their demands were met. When the entire plant is shut down during a strike, many burdensome overhead charges are entirely cut out or, at least, considerably reduced, while the burden to the union of feeding strikers tends to shorten a strike. But, a "go-slow" strike, carried on inside the plant, can be fought while the workers are being employed at company expense, can be carried on indefinitely, and, if well organized in several departments, can be pursued with-

out great fear of the detection of the culprits involved. Fortunately for the managerial staffs of industry, however, few unions have realized the tremendous implications that the growth of overheads is having upon the traditional methods of striking.

Neither have union leaders realized the tremendous change that the growth of overheads has had upon functions of a trade union. Hitherto, the emphasis has been primarily upon the protection of the wage standard, and although this is still important, the emphasis today should be increasingly upon shorter hours and protection from speed-up.

The growth of overheads has also had a tremendously important effect on theoretical economics. The semiskilled factory worker today is little more than a machine tender and feeder. The machine does the direct work of production; the worker does little beside attend to its needs and control its rate of production. Due to the importance of overhead costs, the worker has a potential nuisance value to the employer, by reason of the fact that he controls the rate of production of the machine, even though, generally speaking, he has little part in the productive process itself. Unwittingly, through fatigue, or wilfully, by pursuing trade union practices in the workshop, a factory worker is a serious potential impediment to production, and in so far as he cannot be removed from the factory altogether by further mechanical inventions, he must be put into the most amenable condition possible. Generally speaking, therefore, factory wages today largely constitute a return for not being an impediment to productivity, rather than, as Marshall conceived it, a reward for the productivity of labor itself. The greater the threat of a discontented and reluctant labor force, the higher wages will run if that, in itself, is thought the cure for this attitude. Consequently, high wages are becoming less the return for the initiative and efficiency displayed by labor in the direct creation of goods and services and, increasingly, are tending to reflect the value placed upon securing a particular mental attitude from labor in face of threats that a contrary attitude might be adopted.

The tremendous importance of overheads in modern industry has also had a profound effect upon the theory of industrial location. For in the opinion of the writer, the fundamental cause of

the recent relocations of industry has been partly the result of a desire to be close to markets in an effort to reduce the time lost in the distribution of goods once they had been produced, and partly the result of the search for a labor supply amenable mainly to speeding up and to the introduction of technological innovations into the industrial process, though minor factors also operate to weight the scales somewhat but not to turn it in another direction.[14] The problem of the location of industry, therefore, is the result of the fundamental schism between capital and labor in modern industry. And, consequently, any attempt to license industrial location, without providing a solution to this still greater problem may create more difficulties than it solves. For, in times of pressure for the introduction of technological change, if capital cannot free itself from the restrictions practised by trade unions by escaping to other areas, then industrial progress will be impeded or even stifled. Or, if in spite of the unions, technological changes are introduced, the price will be industrial struggles unprecedented in frequency and bitterness; while the attempt to settle them and preserve the present economic system may only weaken the authority of the state and lead to dictatorship.

[14] Space is here too short to argue out this point but, it has been attempted in a forthcoming book by the writer in the "Theory of Location of Industry, with special reference to the situation in Great Britain." All that can be done here is to indicate that such a conclusion can logically be deduced if it is agreed that the propositions that have been laid down are factually correct.

THE EXCESS PROFITS TAX AND DEFENSE FINANCING

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I

The Second Revenue Act of 1940,[1] signed by the President on October 8, 1940, placed on the statute books an excess profits tax on corporations designed to help finance the national defense program and to prevent "new war millionnaires".[2] This act was amended on March 7, 1941, to prevent unfair application of the tax in abnormal cases and to provide additional easing provisions.[3] The purpose of this article is to examine this new "animal", to point out the more important implications of this tax to business and to national defense financing, and its relation to economic and social policy. In this article, it will be possible to cover only the most important aspects of the problem.

In general, an excess profits tax is a tax on profits which are in excess of some standard. There are several standards which might be used but those employed in the present law are invested capital, in which case a credit equal to a certain percentage of invested capital is allowed, and average earnings, in which the exempted profits are equal to the average earnings of designated previous years.[4] The method used is the choice of the taxpayer. It is the excess over the standard profits which is subject to the rates.

[1] Public, No. 801, 76th. Cong., chap. 757, 3d. Sess., (H.R. 10413).

[2] The act also provided for a 3.1 per cent addition to the normal income tax of companies earning more than $25,000, making their rate 24 per cent, a special 5-year amortization plan for defense plant expansions, and it suspends the profits restrictions imposed on Army and Navy ship and aircraft contracts by the Vinson-Trammell Act.

[3] H.R. 3531, signed March 7, 1941, sections 712 and 741 of the Internal Revenue Code, Public No. 10, chap. 10, 77th Cong., 1st Sess.

[4] The use of both methods was the result of a compromise. The Treasury wanted the invested capital method because it would maximize revenues, while certain groups wanted the average earnings standard since it would allow higher credits in certain cases.

The excess profits tax is nothing new. The first tax of its kind was enacted in 1917 just before our entrance into World War I. Before this could go into effect, another was enacted in October, 1917. This edition was superseded by the excess profits tax in the Revenue Act of 1918, signed in February, 1919. This tax continued in force through 1921. Even in recent years we have had an excess profits tax, of a mild variety, to be sure. Since 1933, when it was introduced in the National Industrial Recovery Act, it has been used in combination with a capital stock tax, with comparatively low rates.

In the 1917 law, the excess profits tax was levied on the difference between prewar normal profits (average earnings in 1911–13) and the profits in the taxable year, but the credit could not be less than 7 per cent or more than 9 per cent of invested capital.[5] This was a peculiar combination of the invested capital and the average earnings methods of measuring the tax. The rates were graduated from 20 per cent on taxable net incomes not in excess of 15 per cent of invested capital to 60 per cent on excess net incomes in excess of 33 per cent of invested capital.

The Revenue Act of 1918 included two excess profits taxes, the higher being payable. One employed the invested capital method, the tax falling on the excess of profits in the taxable year over 8 per cent of the capital used in the taxable year. The other, designated as the war profits tax since it was designed to tax only profits due to the war, used prewar earnings (average 1911, 1912, and 1913) as normal and took 80 per cent of the excess. The tax rates for the invested capital method were 30 per cent of taxable net income not in excess of 20 per cent of invested capital and 65 per cent of taxable net income in excess of 20 per cent of invested capital.[6] The war profits tax was repealed in 1919 and the excess profits tax rates lowered for 1919, 1920, and 1921.

The excess profits taxes used in the last war were successful from the viewpoint of raising money but the administrative difficulties caused by the taxes were enormous. At the peak in 1918 the excess profits and war profits taxes yielded $2,505,565,939, or about 58

[5] For detailed discussion, see R. G. Blakey, "War Revenue Act of 1917," *American Economic Review*, Dec., 1917, p. 791 ff.

[6] For details see C. C. Plehn, "War Profits and Excess Profits," *American Economic Review*, June, 1920, pp. 283 ff.

per cent of the total revenues from income taxes. Even in the lowest year, 1921, the tax yielded $355,131,811, or about 25 per cent of the total raised from income taxes.[7] It has been shown that the largest corporations paid most of these taxes.[8]

The administration of the taxes was a complex task. The main problem was the determination of invested capital. This had to be done for practically all industries in the country in a short period of time. Together with many other "problem" provisions of the laws, the task of finding invested capital equitably caused such difficulties that the administrative machinery came near to breaking down.[9] Some cases are still pending in the courts. The drafters of the Second Revenue Act of 1940 have attempted to iron out these snags as indicated below.

Since 1933 an excess profits tax has been used in combination with a capital stock tax. Corporations are permitted to declare the value of their capital stock every three years. The capital stock tax is $1.10 per $1000 of declared value of capital stock. This includes the 10 per cent defense tax in the First 1940 Revenue Act. The new rates of the excess profits tax as changed in the First Revenue Act of 1940, passed in June, 1940, are 6.6 per cent of the declared value of capital stock, and 13.2 per cent on the income greater than 15 per cent of declared value of capital stock. This combination was designed to insure a fair declaration of value of capital stock, since a low declaration would lower the capital stock tax but increase the excess profits tax, and vice versa. In the Second Revenue Act of 1940, Title 5 changed the name of the tax to "declared value excess profits tax", and the tax remains in force. For the fiscal year 1939 the yield of the two taxes was estimated by the Treasury at $17,600,000 and it was estimated that an additional $12,000,000 would be produced by the increased rates in 1940.

II

The present law is rather complex. It is believed by some to be one of the most bewildering pieces of tax legislation ever enacted. It is impossible to go into the details here, but the broad outlines

[7] U. S. Treasury, *Statistics of Income* (1922), p. 33.
[8] R. G. and G. C. Blakey, *The Federal Income Tax* (1940), p. 169.
[9] *Op. cit.*, chaps. 6, 7, 23.

can be traced.[10] The complexity of the law is partly the result of attempts to make the tax equitable and easier to administer, and partly the result of compromises necessary to pass the legislation.

The law provides for two alternative methods of calculating the tax. The choice, in any case, is the taxpayer's. One is based on invested capital, the tax being levied on the excess of profits over 8 per cent of invested capital after deducting normal income taxes. The other method taxes the excess of profits over 95 per cent of average net income, adjusted, of the four years 1936–39, after deducting normal income taxes, plus 8 per cent of the net capital addition or minus 6 per cent of the net capital reduction for the taxable year. In both cases a flat exemption of $5000 is also allowed. The amendment of March, 1941, provides that both options be included in the return, the lower tax being payable.

The method of calculating average earnings was changed in the amendments of March, 1941, to allow higher credits for young corporations whose earnings were comparatively low in their beginning years and would have been taxed heavier than older corporations. Thus, the new method instead of weighting each of the four years (1936–39) equally, emphasizes the last two years. With the base period divided into halves, of two years each, the formula for the adjusted average earnings is: difference between sum of earnings in second half and sum of first half, divide by two, add to sum of second half, divide by two. The allowed credit cannot exceed the highest annual income, however. For example, if the earnings after normal income taxes were: 1936—$100,000; 1937—$200,000; 1938—$300,000; and 1939—$400,000, the average (adjusted) earning would be $450,000 but the credit could be only $400,000.

The "excess" profits are taxable at the following rates in graduated brackets beginning after December 31, 1939:

Bracket	Rate (%)
Up to $20,000	25
Next $30,000	30
" $50,000	35
" $150,000	40
" $250,000	45
Over $500,000	50

[10] For more detailed discussion, see *Wall Street Journal*, Tax Series, Oct.–Dec., 1940; J. S.

Simplified examples may serve to illustrate the calculation of the tax.

Invested Capital Method

Given; net income for year after normal income taxes—$200,000; invested capital—$1,000,000

Excess profits net income		$200,000
Credit:		
8 per cent of $1,000,000	$80,000	
Flat exemption	5,000	
Total credit		85,000
Taxable net income		$115,000

Employing the above graduated rates, the tax is 25 per cent of $20,000, plus 30 per cent of $30,000, plus 35 per cent of $50,000, plus 40 per cent of $15,000 or a total of $37,500. In this example only $15,000 of the $115,000 taxable income is subject to the 40 per cent rate, and none is subject to the 45 or 50 per cent rates. The effective tax rate is $37,500 of $115,000 or about 33 per cent. Of course, if the net income after normal income taxes had been less than $85,000 there would be no excess profits tax at all.

Average Earnings Method

Given: Average earnings, adjusted, 1936–39, after normal income taxes—$100,000; net income after normal income taxes in taxable year—$150,000; addition to invested capital—$80,000.

Excess profits net income		$150,000
Credit:		
95 per cent of $100,000	$95,000	
8 per cent of $80,000	6,400	
Flat exemption	5,000	
Total credit		106,400
Taxable net income		$43,600

Applying the rates in the same way as above the tax is $12,080, the highest rate 30 per cent and the effective rate about 28 per cent. In this case, the closer the average earnings in the base years come to the income in the taxable year the lower the excess profits tax.

There is no particular difficulty in calculating the tax once the meaning of what should be included as invested capital and as net

Seidman, "The New Excess Profits Tax," *Taxes*, Nov., 1940, p. 659; R. G. and G. C. Blakey, "Two Federal Revenue Acts of 1940," *American Economic Review*, Dec., 1940, p. 724.

income for excess profits tax purposes is defined. Defining invested capital and income is the crux of the problem of setting up and administering an excess profits tax efficiently and equitably. In order to remove many sore spots in previous excess profits tax legislation and to lighten the burden of the tax the lawmakers included many definitive and easing provisions.

Invested capital is defined as equity capital plus one-half of borrowed capital and includes money and property paid in for stock and surplus, prior year taxable dividends, accumulated earnings and profits at the beginning of the taxable year, 50 per cent of all borrowed capital, and it may include holdings of government securities if the interest is included in income for excess profits tax purposes.[11] For example, if the liabilities side of the balance sheet of a corporation consisted of bonds, bank loans, preferred stock, common stock, reserve for depreciation, reserve for contingencies, insurance reserve, accounts payable, paid-in surplus, and earned surplus, all would be considered part of invested capital except the reserve for depreciation and accounts payable. However, only one-half of the borrowed capital, bonds and bank loans, would be included.

Other provisions which tend to ease the burden on the taxpayer besides the alternative credits and the $5,000 flat exemption, which excludes most corporations, are the exclusion from income of long-term capital gains and losses, the full credit for dividends received on stock of domestic corporations, the allowance of consolidated returns, and the exclusion of a one-year deficit in the calculation of average earnings. Certain classes of profits realized in one year from an investment of longer duration may be spread out over several years. The idea behind many of these adjustments is to apply the tax only to the regular recurring business profits, unaffected by outside windfalls or losses. With the hope of providing greater justice and flexibility, the Commissioner of Internal Revenue is given authority to make such adjustments as are necessary in cases of abnormal income or capital, but his decisions are subject to review by the United States Board of Tax Appeals. This section may be attacked in the courts as an unconstitutional delegation of Congressional power.

[11] Section 718.

The "Excess Profits Tax Amendments of 1941" which are retroactive to January 1, 1940, have a somewhat similar purpose since they recognize that "equitable considerations demand that every precaution be taken to prevent unfair application of the tax in abnormal cases" and that the success or failure of legislation "depends, to a considerable degree, upon its intelligent and sympathetic consideration." The amendments do not change the rates or the basic structure of the tax but the changes are not inconsequential. The change in the calculating of the tax by the average earnings method has been described above. Another change permits all corporations to carry forward unused excess profits credits for two years, whereas the original act provided for a one-year carry over for corporations with normal tax net incomes of less than $25,000. It has been estimated that these changes will cut revenues by about $100,000,000.[12]

Other changes grant foreign corporations the same right as domestic corporations to choose the option of calculating the tax which assesses the lower tax and to permit capitalizing certain expenditures for advertising and for the promotion of goodwill made during the base years 1936 through 1939. The latter can be used either as increases in invested capital or as additions to prewar earnings, but in both cases the effect would be to decrease the burden and the yield of the excess profits tax.

It is expected that the excess profits tax will yield between $400,000,000 and $500,000,000 in 1940 and possibly one billion or more after the national defense program is well under way. If the rates are increased the revenues will, of course, be greater. The effect of the 1941 amendments was to decrease the potential yields.

The 1940 tax is a close cousin to the 1917 and 1918 taxes, but dressed up more elegantly. Both the invested capital and average earnings bases are evident in all three, but in different forms. The 1940 law will probably be easier to administer because previous records are available, experience can be relied upon to help, and the easing and clarifying provisions will probably forestall much litigation. Although the rates in 1940 are lower than in 1917 or 1918, the top rate being 50 per cent as compared with 60 and 65,

[12] *New York Times*, Feb. 25, 1941, p. 1.

respectively, the normal tax rates are much higher. The normal income tax rate in 1940 is 24 per cent as against 6 in 1917 and 12 in 1918. The total tax burden is at present comparable at least to that in 1917 and 1918. The present rates, it must be remembered, are peace time rates and might be expected to be increased if this country should go to war.

In evaluating the law an authority states, "In spite of all efforts, the law is very complicated and difficult to understand, though it is much less so than before the Senate amended it. Its administration will raise many difficult and complex problems, some of them unanticipated and provocative of prolonged litigation. The fact is that this kind of tax cannot be both fair and simple; doubtless this one will work hardships in some special cases but, in general, it appears equitable if not generous, especially so to small corporations."[13]

III

It might be interesting to review the probable effect of the tax on different industries.[14] Each firm subject to the tax will naturally choose the option for calculating its excess profits tax which will minimize its tax. In order to make this choice an estimate for each option would have to be made.[15] In general, corporations which have had average earnings (adjusted) in the four base years, 1936–39, of less than 8 per cent of invested capital will use the invested capital option since it would permit a larger deduction and thus minimize the tax. On the other hand, concerns which have enjoyed average (adjusted) earnings of more than 8 per cent of invested capital will choose the average earnings method, since it would allow a larger deduction than could be obtained by the use of the invested capital option.

In 1940 some industries will be hit hard by the excess profits tax and others will not, but they may not escape the increased normal tax rates. All firms which have had consistent earnings from 1936 to 1939 and whose income in 1940 is about the same will pay little

[13] Blakey, *American Economic Review*, Dec., 1940, p. 734.

[14] For effects on specific industries see *Wall Street Journal*, Tax Series, Oct. 1 and 15; Nov. 15, 19, 22, 26, 29; Dec. 3, 1940.

[15] Since it is now necessary to include both calculations in the returns, the lesser being payable, there is really no choice.

or no excess profits tax. Industries which have had low earnings in recent years and whose earnings in 1940 are still below 8 per cent of invested capital may not be hit at all by the tax. Steel, oil, utilities, air transportation, mining, and the railroads are in this group. The larger banks will not be greatly affected because a large part of their income is from tax-exempt government securities and also, their earnings in recent years have been fairly stable with no outlook for a sharp upturn that might mean increased taxes. Smaller banks, with small investments in government securities, if making new loans will pay higher excess profits taxes.

All industries which have benefited from the national defense program and whose earnings in 1940 have gone up sharply and constitute more than 8 per cent of invested capital, will, of course, pay excess profits taxes. These are the industries the tax was designed to reach. Included in this group are some motors, paper, shipbuilding, electricals, heavy machinery, machine tools, office equipment, and textiles. It must be remembered that there may be individual firms in an industry which will not follow this pattern.

If a corporation must pay an excess profits tax it is logical that less will be available for the payment of dividends and this in relation to the size of the tax. Another factor which may lower cash dividends to stockholders is the provision allowing the inclusion in invested capital of funds retained in the business, a reversal of the policy of the undistributed profits tax. This provision encourages keeping capital in the firm since the deduction for the excess profits tax would be larger the following year. Stock dividends might be expected to increase as a result.

It should be pointed out, however, that since the maximum rate is 50 per cent and that this applies only to that part of the taxable income which is over $500,000, it is quite impossible for earnings per share to disappear or to come near this stage. If the rates should be raised then earnings per share, of course, would go down further but not necessarily to zero.

IV

It is sometimes charged that the excess profits tax is unjustified, adversely affects production and enterprise, is paid by consumers in the form of higher prices, and is inequitable. It might be worth while to evaluate these criticisms briefly.

At the present time increased taxes may be justified for national defense reasons. Whether these funds should be raised by income taxes, excess profits taxes, or excise taxes is another question. But since the rates of the income tax and the excise taxes have already been raised it would seem logical to tax excess profits especially when due to defense or war prosperity. Experience has shown the tax to be very productive at such times. A sales tax would be no full substitute because it could not be as productive without taxing consumption of lower income groups to the point where it might endanger standards of efficiency. It would certainly not be based on ability to pay, unless on luxuries only.

Although it can easily be shown to result in some injustice, the excess profits tax is on the whole a tax based on ability to pay. Since the tax is levied on surpluses at the close of the fiscal period and increases or decreases only as profits increase or decrease, it is hardly possible that the tax will force concerns out of business. For the same reasons, it would be difficult for the corporation to shift the tax to the consumer in the form of higher prices unless the concern worked on a cost-plus basis for the government, in which case the tax is illusory. It is generally agreed by authorities that the excess profits tax, like the income tax, is borne by the stockholders or owners of the business.

It has been charged that the application of the excess profits tax to young firms, whose sales have grown rapidly in 1938–40 without comparable increases in invested capital is inequitable. This probably was true but the 1941 amendment changing the method of calculating average earnings to emphasize the last two years in the base period, 1936–1939, as described above, helps to overcome this criticism.

It is possible for the excess profits tax adversely to affect production if the rates are very high. If the government takes too much of the profits it is possible that enterprise will be discouraged. During the last war it was found that since it was generally believed that the excess profits tax would end after the war, production that could wait (timber, oil, coal) was discouraged in some cases.[16]

In Great Britain it was found that the very high rates, 86 per cent at the maximum, resulted in the discovery of many methods

[16] Plehn, *op. cit.*, p. 296.

of evading the tax such as increasing wages and salaries, purchasing equipment which was not really needed, advertising on a lavish scale, making repairs beyond reasonableness, etc.[17] These adverse affects may be prevented by using lower rates, say 75 per cent at the very maximum.

V

It is very likely that the present government expenditures for national defense will continue and even increase. Total expenditures for 1941 were estimated at $12,000,000,000. The debt limit, formerly at $45,000,000,000, was extended to $49,000,000,000 in the First Revenue Act of 1940 and a further extension to $65,000,000,000 was made in February, 1941. This was expected to be sufficient only through June 30, 1942[18] and indicates a continuation of the Administration policy of deficit financing and a still further extension of the debt limit beyond 65 billions. A suggestion that the debt limit be raised to 90 billions was made in April, 1941, by the Secretary of Commerce, Jesse Jones.[19]

With the increased demand for goods, a rapid price rise is not at all an impossibility, especially if the government continues to finance itself by borrowing. The fact that the banks of the country could expand loans greatly is an additional source of inflation danger. As yet, however, prices in this country have not gone up much since the start of the present war. The Bureau of Labor Statistics index of wholesale prices (1926 = 100) rose from 74.8 on August 26, 1939, just before the start of the war, to 79.9 on December 28, 1940.[20] The index on April 19, 1941, however, was 83.0.

A price inflation in the next few years is a dangerous thing for several reasons. It would increase the cost of defense and probably necessitate a still further increase in government debt. It would burden the wage earner if the cost of living went up faster than wages, and also all people with fixed incomes, although the Bureau

[17] R. M. Haig, "British Experience with Excess Profits Taxation," *American Economic Review Supplement*, Mar., 1920, pp. 6–11.

[18] *Wall Street Journal*, Dec. 10, 1940, p. 1.

[19] *New York Times*, Apr. 30, 1941.

[20] S. Nelson and A. Joy, "Prices and the War," *Monthly Labor Review*, Jan., 1941, p. 59.

of Labor Statistics index of cost of goods purchased by wage earners and lower-salaried workers (1935–39-100) in large cities actually has risen slightly, from 98.6 on August 15, 1939 to 100.1 on November 15, 1940.[21] On March 15, 1941 the index was 101.2.

If prices rise rapidly during the prewar and war years, the possibility of a disastrous price collapse after the emergency with unemployment, widespread social disorder, and danger to democratic government, would be greatly enhanced. In other words, the extent of the deflation will depend to a considerable extent upon the nature of the preceding price rise. The importance of preventing a great price rise should be evident.

There are several ways the government can move to prevent an inflation: (1) by financing as much as possible of the defense expenditures by taxation and the sale of bonds to individuals, (2) by exercising price control over commodities necessary to the defense program, (3) by discouraging unjustified monopoly price increases, and (4) by restricting or limiting the potential expansion of member bank credit. This is being done, respectively, by the Treasury Department, the new Office of Price Administration (OPACS) the anti-trust division of the Department of Justice, and the Board of Governors of the Federal Reserve System. A fifth method, withdrawing purchasing power from the hands of consumers is the forced savings or Keynes plan. To what extent they will be successful it is hard to predict. In this article it will be possible only to consider the first method.

If prices are to be kept in hand, it will be necessary for the government to do a large part of the financing of the defense program by taxation and by the sale of bonds to individuals rather than to banks.[22] These bonds must not be allowed as collateral for further borrowing. If they are, as in the last war, the effect would be the same as if the bonds were sold to banks. Taxation or the sale of bonds to individuals simply represents a transfer of purchasing power from individuals to the government with no net increase in the amount of money being offered for goods, services,

[21] Nelson and Joy, *op. cit.*, p. 61.

[22] For a more comprehensive discussion of the problem, see H. L. Lutz, "Loans v. Taxes in Defense Financing," *Annals of the American Academy of Political and Social Science*, Mar., 1941, p. 207.

or securities. On the other hand, the sale of bonds to banks represents a net increase in bank credit and money available to compete for goods, services, and securities, thus encouraging a general price rise.

If total defense expenditures are to total over 12 billion dollars annually it is evident that not all of it can be raised by taxation, currently. In the last war approximately one-third was mustered together from taxes and two-thirds was borrowed. However, this was not enough, for prices more than doubled from an index of 69.5 in 1915 to 154.4 in 1920. Apparently, two-thirds by taxation and one-third by borrowing would be a better goal to aim at, if the price level is to be held down to reasonable limits.[23]

An excess profits tax is indispensable if taxation is to carry much of the defense burden, especially after the income tax and excise tax rates have been raised to the hurting point. Both Great Britain and Canada have high excess profits taxes, the former a 100 per cent tax.[24] Since it seems to be the policy of the Administration to prevent a serious inflation, as evidenced by its use of Federal Reserve controls in 1937 and its refusal to use the paper money provisions of the Thomas inflation bill, and the setting up of various price control agencies, the continuation of the excess profits tax may be expected and probably at higher rates. Amendments are rumored as possibilities in this session of Congress.[25] The President had originally asked for a "steeply graduated" excess profits tax on corporations, individuals, and partnerships rather than on corporations only. The Treasury favors the repeal of the average earnings option. These proposals may get consideration soon. Other groups will undoubtedly try to have the law repealed and substitute a sales tax, perhaps, or if this cannot be done, to make the law as impotent as possible. It would be safe to predict, however, that despite these attempts to sabotage the law "this general tax technique will remain with us for a long time."[26]

The latest Treasury proposals include a 10 per cent increase in

[23] The Secretary of the Treasury recognized this goal as a good one in a press conference. See *New York Times*, Apr. 18, 1941.

[24] See J. H. Barkmeier, "Summary of British Taxation," *Comparative Law Series*, U. S. Department of Commerce, Jan., 1940.

[25] 77th Congress, 1941.

[26] *Commercial and Financial Chronical*, Nov. 23, 1940, p. 2998.

the rates of the excess profits tax and a lowering of the credits so as to increase revenues, but no change in the basic structure of the tax is anticipated.[27]

VI

The excess profits tax recently enacted in the Second Revenue Act of 1940 signed on October 8, 1940 and amended in March, 1941, resembles in many respects the excess profits taxes employed from 1917 to 1921 to finance a substantial part of the expenditures of the last war. It utilizes the same bases of calculating the tax, invested capital and average earnings, but in different forms. Past experience has been drawn upon in the framing of the law to eliminate weak points in previous legislation. By its very nature a complex piece of legislation, it includes many clarifying and easing provisions, and is a significant improvement over the 1917 and 1918 laws. This does not mean that improvements cannot be made.

In any defense or war finance program and especially in the present state of federal indebtedness as much of the funds required as possible should be raised by taxation to prevent inflation and its consequences during and after the war or emergency. At least one-third should be raised by taxation, with two-thirds as a goal. Excess profits taxation should make up along with increased income taxes the major part of the revenues from taxation because of its productiveness and minimum impediment to enterprise and business activity, if the rates are not too high. It will reach only surpluses and is based on the ability-to-pay principle, broadly conceived. There should be no important adverse effects on production since the rates are comparatively low with 50 per cent on that part of taxable income over $500,000 as the top rate.

Attempts will probably be made to amend the law in the present session of Congress. It would be safe to predict the continuance of the law in its present form, possibly with higher rates, especially in case this country went to war.

[27] *Wall Street Journal*, Apr. 25, 1941.

AMERICAN PARTICIPATION IN THE INTERNATIONAL STEEL CARTEL

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I

The present survey is confined to the external ties which connected American steel producers to the International Steel Cartel.[1] In order to discuss this subject it is necessary to mention superficially some points of the structure of the ISC as it existed after the renewal of its fundamental agreements in 1938. Problems connected with the business strategy of the ISC are not discussed here. Even the designing of the external structure of the American-European steel pact is made here with reservations which should be noted. Details are omitted in order to make the picture more comprehensible. This paper presumes that the reader is familiar with the political implications of international combinations, that he knows something about the trade terms of common steel products,[2] and that he has available literature concerning the earlier periods of the International Steel Cartel.

The structure, aims and tools of operation of the ISC were not veiled in mystery. It consisted of a rather intricate network of institutions, some of a conventional, others of an unconventional economic pattern. Two categories of economic forces operated in this mighty edifice, both designed to make the structure of the world steel export market revolve around a parent and a group of filial centers. First were the forces, centripetal in nature, aimed at maintaining internal collaboration and discipline. Second, were the centrifugal forces designed to keep buyers and buyer-groups in line and to eliminate actual and potential competitors. More

[1] Hereafter ISC will be used as an abbreviation for International Steel Cartel.

[2] See C. R. Daugherty, M. G. de Chazeau and S. S. Stratton, *The Economics of the Iron and Steel Industry*, Vols. I and II, *passim.*

often than one might suppose the cartel gained the easy acquiescence of buyers to its marketing schemes. Thus, cartel dynamics should be viewed as a movement inside of a self-centered organism as well as a movement influencing the outside world.

Although the structure of the ISC was continually in flux, its development may be divided into several periods, the last of which, from June, 1938, to September, 1939, achieved the highest degree of efficiency. During this period the cartel embraced virtually all of the important steel exporters of the world and included within its marketing schemes all important finished steel products. At the same time the ISC wisely avoided interference with the output problems of the member countries.[3] It limited its field to exports in the strictest sense.

The highlights of ISC activities, as culled from the terms of its agreements and from the real effects of its operation, were these: (1) The establishment of general and subsidiary marketing schemes, and of agencies to administer them. The marketing schemes contained—among other provisions—quota systems, determining the sharing of markets of particular steel commodities by national exporting groups. (2) The elimination of competition—including non-price competition—between exporters of any given steel product. (3) The coordination of price-relationships among the different products. (4) The organization of merchandizing functions in importing countries. (5) The stabilization of export prices within rather narrow limits throughout periods of business fluctuations.[4] (6) The elimination or softening of real and poten-

[3] Output quotas were virtually eliminated from the general cartel scheme beginning with 1933; however, up to June, 1938, a system of global crude steel quotas for exports was maintained with a quarterly predetermined general exporting program. The last decision concerning a general exporting-quantity scheme was taken at the Warsaw meeting in 1937. The Warsaw meeting of the Management Committee of the International Steel Entente (European Continental Steel Cartel) October 13, 1937, reduced the monthly global export quantity of steel (called "tonnage program") from 525,000 metric tons to 425,000 metric tons. Neither the British nor the American group adhered to global crude steel quotas or to general export quota program schemes. Among the European continental national groups only the Czechoslovakian group did not join the crude steel quota system.

[4] The ISC attempted to restrict business fluctuations by the maintenance of rather inflexible official prices and extras. According to the agreements official prices were minimum prices. Cartel adherents were obliged not to sell at less than official prices and extras. However, in 1937, when buyers freely offered in addition to the official prices "premiums" for quick delivery the cartel admonished its members not to require such premiums. See the report

tial outside competition in the broadest sense. (7) The protection of the domestic market of adherents. (8) The establishment of a coordinated propaganda for the use of steel.

There are—though it seems incredible—no recent comprehensive treatises on the ISC. Incidental points may be found in several papers discussing international combinations. J. B. Condliffe, discussing international commodity controls, complains that there is "little accurate knowledge of the extent of such controls," stating that there is "perhaps no field of economic research in which the difficulty of access to reliable quantitative material is greater. . . ." Professor Condliffe attributes the lack of information both "to the secrecy with which international business agreements have been enshrouded and to the difficulty of assessing the influence exerted by their negotiators upon government policy."[5] This is not the place to analyze how far the situation of which Mr. Condliffe writes could be improved by greater systematic effort in collecting and ordering the available material. To be sure, in the realm of the ISC there was considerable publicity, though it was not easy to penetrate the maze of agreements and policies.[6]

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about the meeting of the Joint Coordination Committee of the ISC of Paris, January 17, 1938, in *The Times* (London) January 18, 1939, p. 17.

[5] *The Reconstruction of World Trade*, pp. 334–335.

[6] The best comprehensive discussion in English of the ISC up to the end of 1937 is contained in *Iron and Steel*, Report 128 (Second Series) of the United States Tariff Commission. One official report of the cartel, including a historical introduction up to the first quarter of 1937 is contained in *International Ententes*, (Paris, 1937), a document prepared for the Berlin Congress of the International Chamber of Commerce. Further official communications concerning the external structure of the ISC were published in 1939 in the recently established journal of the Bureau of International Cartels, *International Cartels* (No. 1 and 2 English version) in Paris. Economic periodicals, trade journals, and daily newspapers often carried information about current events in the cartel. The inside story of cartel operations and news about the price policy were discussed in steel cartel jargon by two fortnightly periodicals, one appearing in The Hague, the other in Düsseldorf. The *Westeuropäische Wirtschaftskorrespondenz*, which appeared in The Hague, is the better known of the two. A recent discussion—November 15, 1939—in the hearings before the Temporary National Economic Committee of the United States Congress brought out some significant points about American participation in the ISC. *Investigation of Concentration of Economic Power*, Hearings before the Temporary National Economic Committee. Hereafter TNEC will be used for this body. D. L. Burn's recently published *The Economic History of Steelmaking, 1867–1939* (Cambridge, England, 1940) contains much pertinent information, especially with reference to the connection between British steel producers and the ISC. However, it is presumed that the subtitle of the book, "A Study in

At the beginning of September, 1939, with the outbreak of the Second World War, the ISC ceased to exist. The so-called fundamental agreement of the French, German, Belgian, and Luxemburg "groups" constituting the core of the cartel was forcibly terminated. At the same time and for the same reasons the general agreement with other European continental groups (Czechoslovak and Polish) and the understandings with the British Iron and Steel Federation and the American steel producers were rendered void. With the sudden fall of the main organization all agreements relating to particular commodities (e.g., rails, wire, sheets, semifinished steel, merchant bars, plates, etc.) administered by more or less "independent" export sales comptoirs were nullified. Understandings which established particular export market organizations, agreements made with shipping conferences, a number of so-called "penetration" agreements[7] (with South Africa, Finland, Norway, Switzerland, Holland, etc.) were ipso facto dissolved. In addition, innumerable legal, commercial, financial, and personal questions remained "open." Thus, the mighty structure of the ISC, built up with great effort, broke up without even an orderly liquidation. The war unexpectedly brought the main continental steel producers under German domination. All of the big continental steel producing and consuming countries save Russia (even Italy) must now cooperate with the German steel regime.[8] The core of the Continental Steel Cartel revived in the new form of an "imposed combination." Formal leadership of the new Steel Entente is in the hands of the German government. The decisive word, however, is probably spoken by the German National Steel Cartel, the Stahlwerksverband, located in Düsseldorf. The war

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Competition" relates only to the British steel industry. S. S. Stratton reviewing Burn's study called this subtitle misleading. *The American Economic Review*, XXX, 148. Mr. Burn's scholarly book did not devote a separate discussion to the structure of the ISC.

[7] "Penetration" agreements were understandings with steel producers of nonmember countries. They fixed conditions under which the ISC "penetrated" into "their" domestic market, preferred conditions of delivering them semi-finished steel, and so on.

[8] With reference to the new "incorporated" territories, see the *Annual Report of the Stahlwerksverband Aktiengesellschaft for 1939*, Düsseldorf, 1940, *passim*. The expansion of the new Göring Works is discussed in *Wirtschafts-Dienst* (Hamburg) Vol. XXV, p. 1022 and in Kurt Lachmann's "The Hermann Göring Works," *Social Research*, Vol. VIII, p. 24 ff. Dr. Hans Schneider, "Welteisenmarkt in der Schwebe," *Wirtschafts-Dienst*, Vol. XXV, p. 366 ff. described the situation on the export steel market in the spring of 1940.

has thrown the world steel market, if there is any, into a sui generis monopolistic situation, characterized by the usual features of scarcity.

In discussion of the ISC and its parts, terms have often been used indiscriminately. This is not the place to clarify all terminological problems. Such an attempt would require a separate extended study. However, it would be well to explain at least a few of the basic terms used in this paper. The term "International Steel Cartel" is not an official name. It may be used in the broadest sense to designate the network of institutions and agreements designed to control the world export market in steel.[9] It was built upon two sets of agencies: national groups, on the one hand, and export sales comptoirs for specific commodities, on the other hand. The European continental steel cartel bore the official name Entente Internationale de l'Acier,[10] and had its central office in Luxemburg. This central office was often unofficially regarded as the central administrative agency of the ISC. The EIA and the British group together have often been called the European Steel Cartel or European Group, although this was not an official name. The expression "International Steel Cartel" was used after January, 1938, to designate all national and other groups including America. The word "steel" in these names has a double significance. It designates technically the object of the cartel, as distinguished from pig iron, iron alloys, and commodities made of steel. Furthermore, it indicates, historically, that before July 1, 1938, the European continental steel cartel (EIA) was based upon crude steel

[9] The officially recognized central policy-making agency of the whole ISC was the enlarged Joint Coordination Committee. However, the routine business of this committee was performed by the administrative office of the European continental steel cartel in Luxemburg.

[10] This body and its central office in Luxemburg is generally referred to by the abbreviation EIA. The official German name of the European continental steel cartel was Internationale Rohstahlgemeinschaft (IRG) until 1933, when adapting its name to the changes in its structure, it became the Internationale Rohstahl-Export-Gemeinschaft (IREG). Up to the time of British adherence in 1935, the EIA may be regarded as *the* International Steel Cartel. And up to January 1938, when America entered the general agreements, the European steel cartel may be referred to as International Steel Cartel. However, after January, 1938, a distinction should be made between the widest organization (ISC), the European organization and the European continental organization. The term "International Steel Entente" used for the ISC is misleading because it is the English translation of the name EIA. American producers claimed to be in the framework of the ISC an entity "operating as a unit similar to Europe." TNEC, *Hearings*, Part 20, p. 10935.

quotas. Between 1933 and July, 1938, the EIA was also based on specific commodity quotas, which gradually made the crude steel quota system unnecessary. The expression "national groups"[11] was used in two senses: (1) to designate the steel producers (exporters) who were organized in one or more national cartels and who, as a group, negotiated general policies in respect to the export steel markets; (2) to indicate the aggregation of steel producers (exporters) organized in a particular export sales comptoir if they would negotiate export policy and if they would take responsibility, in the cartel sense, for their country's export of that commodity.[12]

National groups participating in general policy formation of the ISC may be divided into three categories: charter groups, associated groups, and cooperating groups. The four charter groups, called founder groups, Belgium, France, Germany, and Luxemburg composed the core of the EIA and the core of the ISC. They established the EIA in its first form in 1926 as a continental cartel based on output control, and they maintained a certain mutual relationship in general steel policy forming even when the formal agreements ceased to operate, 1930–1933. Two European continental steel exporting countries, Czechoslovakia and Poland, joined the EIA as associated national groups. Thus the EIA, or the Continental Steel Cartel, was composed of four founder and two associated national groups. In addition there were two cooperating national groups, in the British and the America. They were on another footing from the EIA members in retaining their independence, in many respects, in the framework of the central organization and in its particular units. The EIA had several agreements with individual steel producers and merchants and with other than the above mentioned groups of producers, concerning their cooperation in executing its marketing system. These groups were not called national groups in the technical sense. The expression "national group" was, however, applied to pro-

[11] Concerning "national groups" as units in "super-national economic cooperation" see William Yandell Elliott and Others, *International Control in the Non-Ferrous Metals*, pp. 22–23.

[12] ". . . the Steel Export Assotiation of America consisted of various members who were in various groups. If they manufactured one product, they would be in that group but not necessarily in another group." TNEC *Hearings*, Part 20, p. 10926.

ducers who joined a particular export sales comptoir without participating in the general policy making of the ISC. Thus, for example, Italy joined the International Rail Makers' Association with a share of less than 1 per cent and has been sometimes called in this particular sense a "national group."

The expression "export sales comptoir" designates particular international cartel organizations embracing specific commodities (e.g., merchant bars, structural shapes, wire rods, rails). The ISC and the EIA were organizations more or less controlling and coordinating the functions of export sales comptoirs and national groups.[13] Both central organizations were in the nature of cartel holding companies. According to tradition and agreements each particular comptoir was more or less independent of the central organization. Six of them, however, were rather subordinated to it. These six comptoirs maintained management committees only formally. Practically their managements and commercial policies were decided by the pertinent agencies of the ISC and especially of the EIA.

II

American marketing collaboration with the organization of steel exporters of other countries may be separated into two periods: the first before January, 1938, and the second after that date. In the first period American producers were members of the international sales comptoirs of tinplate, rails, and tubes.[14] This membership did not imply cooperation with the International Steel Cartel as a whole on general marketing conditions, although the comptoirs mentioned may be regarded as parts or annexes in the framework of the international organization. Neither did it imply cooperation with other export sales comptoirs that were part of the International Steel Cartel.

[13] The EIA negotiated and concluded a network of agreements with producers, merchants, shipping conferences, etc., as a trustee of the whole ISC on the one hand and as a trustee of one or several comptoirs on the other.

[14] According to S. Tschierschky, "Chronik der Internationalen Kartelle and Trusts," *Weltwirtschaftliches Archiv*, Vol. XXXVII, Part I, p. 290, American steel producers had an agreement concerning price maintenance of wire products on the export market with the International Wire Export Company (IWECO) as the selling organization of European wire products producers.

American membership in the International Rail Makers' Association goes back to 1904. This most famous international cartel was dissolved in 1914 with the outbreak of the First World War. In 1925–26 a new European Rail Makers' Association (ERMA) was established. America entered this cartel through the Steel Export Association of America on April 1, 1929,[15] and remained a member up to the suspension of cartel operations in September, 1939.[16] America participated in the weekly business meetings of the cartel ("London Committee") through its London representative of the Steel Export Association. Among the several agreements concerning tinplate, the so-called "general" agreements are the most important.[17] According to the general agreements the Steel Export Association of America was a member of the International Tinplate Association from July 1, 1934, up to the beginning of the Second World War. The Steel Export Association of America had various agreements with foreign producers concerning tubular products. The most important of these was the so-called general export agreement, which existed with several changes from December, 1928, to March 31, 1935,[18] when that cartel disintegrated. United States producers cooperated with European producers from 1935 to September, 1939, according to an "informal" agreement on the world export market in tubular products, maintaining prices and meeting to discuss business strategy.

In the second period, beginning in January, 1938, the American group remained direct members in the rail and tinplate comptoirs and collaborated with Europe on tube exports. In addition, according to general agreements concluded late in 1937, the American group began cooperating with the organization as a whole in general marketing questions and with other important comptoirs, of which they were not direct members, in special marketing questions.

This striking change was largely due to two factors: First, both American and European producers increasingly felt the pressure

[15] TNEC *Hearings*, Part 20, p. 10928.

[16] After Americans joined the cartel the European Rail Makers' Association (ERMA) changed its name to International Rail Makers' Association (IRMA).

[17] TNEC, *Hearings*, Part 20, p. 10926.

[18] *Ibid.*, p. 10927.

of competition in several important export markets. Second, and more significant, the European producers had finally united in 1935–36 in extending their organization to include all important European steel exporting countries, especially Great Britain,[19] and in establishing more comptoirs, the most important of which was that for black sheets.

When the International Steel Cartel was first formed in 1926 many wondered what its attitude would be toward the American producers, and vice versa. At that time a competent authority, Walter S. Tower, wrote: "With British and United States producers outside the agreement, steel consumers in neutral markets have little ground to fear price gouging by the syndicate."[20] British experts did not then regard the question of American participation so important as their own. "With America practically out of the foreign trade running—save on the Canadian market," wrote *The Economist* in September, 1928, "the steel importing world must depend almost entirely on those producing countries controlled by the steel cartel and Great Britain. In other words, competition is between our country and cartellized Europe. In no other part of the world but this—or these two parts—can steel be produced at a truly competitive or economic cost."[21] According to one report, Americans felt some anxiety over the establishment of the cartel, although they had frequently been assured that the cartel "is not a war machine directed against them."[22] A famous German economist in discussing the necessity for German adherence to the continental steel entente declared bitterly that the German iron and steel industry, before establishing the new form of coop-

[19] *The Economist* (Aug. 3, 1935, p. 227) characterized British public opinion about joining the cartel thus: "Happy days are here again for the British iron and steel industry." The stimulus of the agreement upon the stock exchange is described in *ibid.*, p. 241. Even more significant is the optimism of British Prime Minister Stanley Baldwin with reference to the reorganization of the British steel industry and its entering the International Steel Cartel. Mr. Baldwin declared emphatically: ". . . I make bold to say that in four or five years the steel industry will be second to no steel industry in the whole world—and that is the natural position of a British industry." *The Times* (London), July 1, 1935, p. 10.

[20] *Foreign Affairs*, Vol. V (1926–7), p. 266.

[21] *The Economist*, Sept. 1, 1928, p. 382. Other British views are quoted by J. Joseph W. Palmer, *Origin and Development of the Continental Steel Entente*, Trade Information Bulletin No. 484.

[22] *Revue Économique Internationale*, Vol. III (1926), p. 391.

eration, was doomed to operate without profits at a time when the "American Steel Trust" (probably the United States Steel Corporation) was earning a 40 per cent dividend.[23] Walter S. Tower felt that, as matters stood in 1927, there was "nothing much for the American industry to gain by joining, and nothing to lose by staying out."[24]

At the time, the typical view of cartels held by British and American producers may be represented by two typical opinions, both expressed at the annual meeting of the Iron and Steel Institute of London in 1927.

Mr. Theodore Robinson, vice president of the Illinois Steel Company, said that the difference in the public state of mind is the reason for the difference between governmental encouragement of the establishment and maintenance of cartels in Europe on the one hand, and the discouragement of industrial combinations in the United States on the other. He regarded "permissive regulation" as the desirable middle way between unrestricted competition and uncontrolled license to combine. Sir William Larke, director of the National Federation of Iron and Steel Manufacturers (London), found it extraordinary that public opinion in the United States "still lagged behind the view held in Europe." He assumed that the reason for this behavior is a fallacy (often raised in Great Britain too), namely, that the consumer presumes that the combination must operate against him. Sir William predicted that these combinations would receive in Great Britain not only support but "the stimulus and pressure of public opinion." He stated that "it was only by means of such organization that this country (Great Britain) could hope to readjust itself to the post-war economic position, without a permanent contraction in the scale of its industry and a consequent increasing burden of unemployment."[25] Sir William Larke did not discuss the point often made

[23] Dr. J. W. Reichert, "Die Festländische Rohstahlgemeinschaft," *Weltwirtschaftliches Archiv*, Vol. XXV, Part I, (1927) p. 348.

[24] *Foreign Affairs*, Vol. V (1926–27), p. 264. In this study Mr. Tower regarded the suggestion of driving out American and British steel from neutral markets as "highly fanciful."

[25] *The Journal of the Iron and Steel Institute* (London), Vol. CXVI (1927), pp. 30, 35. For the assumption by British steelmakers that cartels and stabilized fair prices were important measures against business fluctuations, see the discussion by the Earl of Dudley immediately after his return from America, when he said, "I see no reason why the depression in America

in this connection in the United States that huge economic power concentrated in private hands may in itself endanger the political structure of the state. Probably he regarded it as self-evident that combinations of independent enterprises properly held in check by the state cannot be regarded as agglomerations of uncontrolled economic power. This opinion has been often emphasized in official and unofficial circles in Europe, as has the view that combinations of independent enterprises properly supervised by the public administration are one of the most efficient means of moderating business fluctuations.[26]

Mr. Édouard Herriot, the famous French statesman, in 1930 regarded international cartels as important means of establishing a new political and economic order in Europe. He stated that the action of business men in concluding the continental steel pact "ought to be an example to the politicians." And anticipating a rivalry between Europe and the United States on the export steel market, retarded only by the extraordinary capacity for absorption of the American market, he exclaimed: "In such a competition a disunited Europe would be defeated in advance." Mr. Herriot quoted the resolution of the World Economic Con-

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should overcome us in this country." *Iron Age*, Mar. 10, 1938, p. 87. Gottfried von Haberler (*The Theory of International Trade*, 1937, p. 332) emphasized that the expectation that cartels lessen the severity of economic crises "is not altogether supported by experience." Though I agree with Haberler in respect to his rather skeptical diagnosis and prognosis of the possible influence of international cartels on international political and economic relations, I presume that his treatment of the factual situation is somewhat simplified. His statement (*op. cit.*, p. 335) about the "proverbial individualism of the English entrepreneur" did not take into account the latest development in Great Britain. Mr. John Craig, President of the Iron and Steel Institute, speaks of those revolutionary changes in British opinion and practice in his presidential address. Cf. *The Journal of the Iron and Steel Institute*, Vol. CXLI (1940) pp. 58–59. The Earl of Dudley declared emphatically in 1938, ". . . the days of the individualist in the industry have gone, I think, for good." *Iron Age*, Mar. 10, 1938, p. 87. Recent censorious discussions of the British cartel movement seems to mark a transition in opinion. See *The Economist*, June 15, 1940, p. 1033; Mar. 8, 1941, p. 298; and Apr. 5, 1941, p. 436–7.

[26] There is a discussion concerning the implications of both types of industrial combinations in an official document of the British Ministry of Reconstruction, *Trusts, Combines and Trade Associations*, Pamphlet, Reconstruction Problems, (London, 1919) p. 10. A rather optimistic view concerning the moderating influence of cartels on harmful effects of trade fluctuations was expressed by the chairman of the Continental Steel Cartel, Mr. Aloyse Meyer in "Cartels and Trade Fluctuations," *World Trade*, Vol. IX, No. 6, pp. 62–63 and by *The Times* (London) Iron and Steel Number, "The Trade Cycle, Stable Prices in Good and Bad Times," June 14, 1938, p. 16.

ference (1927) that "it is not desirable that national legislation should place an obstacle to the attainment of the benefits which agreements may secure by exhibiting a prejudice against them as such."[27] He probably would not have approved making the Sherman Act more effective by substituting the expression "monopoly" for the term "anticompetitive conduct."[28] He would probably also oppose the strong expressions used by Marshal Pétain on July 11, 1940, when he dissolved labor unions and employer associations, because he suspected these groups of ostensibly opposing each other while secretly cooperating. M. Pétain accused "trusts" of having broken the mechanism of free competition and stated that it would be a main task of his government to "break the forces of the trusts and their power to corruption."[29]

III

European steel producers, including the British, approached American producers in the second quarter of 1936 with a proposal to start negotiations aiming at a general understanding about the export steel market.[30] A tentative draft of an agreement was prepared by both sides in February, 1937, at a meeting in London. The draft consisted of two parts. The "heavy steel" agreement concerned semi-finished steel,[31] merchant bars, plates, structural shapes, and wire rods. The "sheet agreement" covered hot rolled hoops and strips, cold rolled strips, black sheets, and galvanized sheets.[32] The second group of products was put into a separate draft because of a fear that the chances of cooperation concerning

[27] *The United States of Europe*, (London, 1930) pp. 108–9, 121, 146. Louis Loucheur pointed to the European-American competition as one of the reasons for establishing international cartels in order to strengthen the European position. M. Loucheur regarded international cartels the "only course" to be followed to solve the question of custom barriers. *Report and Proceedings of the World Economic Conference*, Vol. I, pp. 132–133. See the opposing view of Haberler, *op. cit.*, p. 324–325 and 332.

[28] TNEC *Hearings*, Part 25, p. 13351 (proposal of Rudolf Callmann).

[29] *New York Times*, Nov. 13, 1940.

[30] According to *The Times* (London), Apr. 8, 1939, p. 17, a delegation led by the Earl of Dudley and Sir Andrew Duncan was in America to pave the way for a general agreement between European and American steel producers. See TNEC *Hearings*, Part 20, p. 10928.

[31] Semi-finished steel from which seamless pipes are made was expressly excluded from the jurisdiction of the International Semi-finished Steel Entente. I do not know whether it was excluded from the American agreement also.

[32] TNEC *Hearings*, Part 20, pp. 10928, 10929.

this group were slimmer;[33] and later experience proved that the fear was well founded. Indeed, the unworkability of this second point threatened the whole scheme of cooperation.[34]

There was a special discrepancy in production conditions and costs between the American and European producers of commodities pertaining to the sheet agreement. This special discrepancy was mainly due to the rapid development of continuous hot-strip mills in the United States.[35] In the last few years $850,000,000 has been spent on such mills in America, with a resulting capacity of 13 million tons a year.[36] In the United States 26 mills of this type were operating; in the whole of Europe only very few such mills could be found.[37] The revolutionary effect upon competition due to this technical evolution may be seen in the price reduction in automobile fender sheets on the American domestic market from $135 a ton in 1923 to $59 in 1939.[38] It is interesting to note that European producers did not adapt their cartel organization to these technical achievements. They maintained separate comptoirs for strips and for sheets with several quota systems, separate pricing systems, and separate commercial organizations.

During 1939 and 1939 several attempts were made to straighten out the difficulties arising from the slow coordination of marketing policies in commodities belonging to the "sheet agreement."[39]

Late in 1937 the tentative draft of the agreement between the American and European producers was adopted. However, only

[33] See *Iron Age*, Dec. 16, 1937, p. 76.

[34] See TNEC *Hearings*, Part 20, p. 10948. In a letter written by a well-informed and competent agency, the sheet agreement is spoken of as to be formed later than the heavy steel agreement. (*Ibid.*)

[35] See Daugherty, de Chazeau, Stratton, *op. cit.*, Vol. I, p. 19. With reference to the identity of the expressions "continuous sheet" and "continuous strip," see TNEC *Hearings*, Part 19, p. 10689.

[36] See TNEC *Hearings*, Part 19, p. 10689.

[37] *Ibid.*, pp. 10411, 10694. Besides one such continuous mill operated by the Vereinigte Stahlwerke A. G. in Germany, only two British firms, Richard Thomas & Co., Ltd., and John Summers & Sons, Co., own mills of this type. They are located in Ebbw Vale, South Wales, and at Shotton, near Chester, England. D. L. Burn (*op cit.*, *passim*) discusses in detail the introducing of this new production method in Great Britain and the background of these activities.

[38] TNEC *Hearings*, Part 19, pp. 10527, 10701, and Part 20, p. 11001.

[39] See "Observations on the Working of the International Steel Agreement," in *International Cartels*, Vol. I, No. 2, p. 14.

the section concerning "heavy steel" was put into effect immediately, that is, in January, 1938.[40] The parties declared subsequently that they regarded the period between January and June, 1938, as a testing period,[41] although the whole accord, concluded only until 1940, had been regarded in a certain sense as a test. The accord was often referred to as an "understanding" as distinguished from an "agreement."[42] In one sense the term "understanding" may indicate an unwillingness of the parties to be subject to any obligation save a moral one; in this sense "understandings" are sometimes called "gentlemen's agreements."[43] In another

[40] The agreement went into effect with reference to some products in December, 1937. TNEC *Hearings*, Part 20, p. 10938.

[41] According to Mr. Bash's testimony (*ibid.*, p. 10982), the obligations of the agreement had become incumbent in June, 1938. "The principles of the draft agreements with the American industry were confirmed on June 14, 1938, with certain amendments the necessity of which had come to light during the test period since December, 1937," reads an official communication of the EIA. "Prolongation of the International Steel Agreement," in *International Cartels*, Vol. I, No. 1, p. 14.

[42] The accords were designated as "tentative agreements" which should be made more effective according to a draft for a report published as annex to Part 20, TNEC *Hearings*, p. 11018. The report had been sent to the presidents of the member companies of the board of managers of the Steel Export Association of America. *The Economist* (Dec., 1937) spoke of a cooperation with America secured by an "informal understanding on prices, covering most products apart from sheets. While the United States," continues *The Economist*, "cannot be expected to join the Cartel, an informal understanding, if observed, would achieve the same object." *The Economist*, Vol. CXXIX, p. 468. Mr. Walter S. Tower regarded "an informal, friendly understanding" as an act which could accomplish "everything that a full membership in the syndicate has to offer. *Foreign Affairs*, Vol. V, p. 266, (1926–7).

[43] The pact has been called a "modus vivendi" as contrasted with a permanent agreement. *Steel*, Jan. 2, 1939, p. 260. The terminology in regard to these "informal agreements" or "informal understandings" is often misleading. In a report to the League of Nations by four experts, one of whom was Aloyse Meyer, chairman of the Management Committee of the International Steel Entente, both the International Steel Agreement and the Agreement of the International Rail Makers' Association were designated as "gentlemen's agreements." Benni, Lammers, Marlio, and Meyer, *Internationale Industrie-Kartelle*, vorbereitet für den Wirtschaftsausschuss des Völkerbundes (Berlin, 1930), pp. 11, 17. Mr. Meyer discussed various forms of cartels "... from simple gentlemen's agreements concerning prices to common selling organizations and close market regulations." *World Trade*, Vol. IX, No. 6 (June, 1937) pp. 62–63. An official publication of the British Ministry of Reconstruction differentiates between four types of industrial combinations in the United Kingdom: (1) the honorable understanding, (2) the trade association, (3) the combine, and (4) the consolidation. "Honorable understandings" are characterized by the following description: "The simplest type of combination is that which occurs where a number of manufacturers or traders, who would otherwise be competitors, meet from time to time and arrive at an 'honorable understanding' or 'gentlemen's agreement' in regard to output, division of business, etc. Such arrangements are essentially informal and temporary. There are no documents, there is no association,

sense the expression "understanding," as contrasted to "agreements," may suggest that, although there is already an enforceable obligation, many important details have still to be agreed upon; it is in this sense that the term has been used by the American group itself,[44] this in spite of the fact that the pact was never signed. Such a procedure was not unusual; in the operation of the International Steel Cartel important agreements often remained unsigned. As a matter of fact, the accord was regarded by the three parties (EIA, British and American) as obligatory though concluded for a "trial period."[45]

On the American side the Steel Export Association of America acted as party to the agreement; on the European side, the representatives of both the EIA and the British group. The British were represented by the British Iron and Steel Federation. The EIA representatives acted not only for the continental national group but also for the interested comptoirs. The American group regarded the point as to who could represent it as limited by the Webb-Pomerene Act. A specific "association," organized in conformity with this act has been exempt from the antitrust laws and could function within the framework of the International Steel Cartel.

The Steel Export Association of America was incorporated in 1928 under New York State law, although this was not demanded by the provisions of the Webb-Pomerene Act.[46] Its board of directors was composed of the delegates of the participating steel exporters, who were also stockholders of the company.[47] The American negotiators, whether or not they were officers of the association, had to act subject to its approval or in its name to

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there is no bond except that of good faith." Pamphlet Series, Reconstruction Problems, *Trusts, Combines and Trade Associations*, (London, 1919) p. 3. Another discussion of this point may be found on p. 3 of the *Report of Committee on Trusts*, Presented to British Parliament by command of His Majesty's Ministry of Reconstruction, (London, 1919, His Majesty's Stationary Office) Cd. 9236.

[44] TNEC *Hearings*, Part 20, p. 10982.

[45] *Ibid.*, p. 11020.

[46] See Milton Gilbert and Paul D. Dickens, *Export Prices and Export Cartels*, Monograph No. 6, TNEC, p. 136. Original members of the association were, in June 1928, the United States Steel Products Company and the Bethlehem Steel Export Corporation, both of New York City. Mr. Édouard Herriot (*op. cit.*, p. 108) regarded the establishment of the association as an indication that on the world steel market a "fight for world supremacy" between America and Europe was not far distant.

[47] See TNEC *Hearings*, Part 30, p. 10955; Gilbert and Dickens, *op. cit.*, pp. 218 ff.

satisfy the conditions of the Webb-Pomerene Act. The act did not determine the relationship between exporter and association.[48] Actually, the association did not serve either as an exclusive intermediary in selling or as a central selling agency,[49] unlike comparable European export cartel organizations.[50]

To be sure, American steel exporters, due to their adherence to the Steel Export Association of America made an agreement among themselves concerning such items as the domestic allotment of export quotas and premiums—if any—for particular commodities,[51] the apportionment of expenses arising from the administration of these agreements, and of premiums and fines—if any—resulting from not exhausting or exceeding the international quotas, including the deliveries of exporters not joining the association. These arrangements were necessary for functioning as a national group. They existed before 1938 in connection with such international accords as had been made, for example, with foreign producers of rails and tinplate.

IV

Each national group—not only the American—in making international agreements had to conform to the legal regulations of its home country. Apart from the provisions of the Webb-Pomerene Act[52] the American government,[53] unlike European

[48] Concerning several possibilities of these relationships, see Gilbert and Dickens, *op. cit.*, pp. 138 ff.

[49] TNEC *Hearings*, Part 20, pp. 10922 f. *The Economist* (Jan. 29, 1938, p. 130), even at the beginning of 1938, felt uneasiness because "the United States has no central market organization." The same fear was expressed in *The Times*, April 8, 1939, p. 17.

[50] The reasons for the establishment and the history of the association and its predecessors were exhaustively discussed in November, 1939, by the Temporary National Economic Committee. At that time the question why the association did not succeed in uniting all American steel exporters was answered.

[51] Cf. Exhibit 1447, TNEC *Hearings*, Part 20, pp. 11018–19.

[52] According to Section 5 of the Webb-Pomerene Act, annual reports have to be filed with the Federal Trade Commission, on blanks for this purpose, describing the methods according to which a Webb-Association is doing business, the plan under which it is operating, and stating its relations with other associations, corporations, and individuals. Haberler, *op. cit.*, pp. 326–27, quoted the Webb-Pomerene Act as an example favoring home consumers.

[53] The question of whether or not American laws require exporters to inform governmental agencies about international agreements and to furnish details to any public agency has been answered in the negative. TNEC *Hearings*, Part 20, pp. 10982–83. However, the Webb-Pomerene Act empowers the Federal Trade Commission to make inquiries according to Section 5 of the act.

governments,[54] did not exercise any direct influence upon the negotiations. However, there are two characteristic provisions of the Webb-Pomerene Act that are peculiar to the American legislative regulations and had to be complied with by the American group. The American group concluding the agreement could not (1) restrain trade of American exporters not joining the agreement, (2) ask for or agree to the protection of its internal market, because such protection could artifically or intentionally enhance or depress prices within the United States (Section 2 of the Webb-Pomerene Act.)

When the American producers were minutely questioned about their understandings among one another and with European producers at the hearings before the Temporary National Economic Committee, they testified that they had always observed those two points.[55] This is not the place to discuss whether or not the said legislative provisions are consistent with the purpose of the act. It seems that there were some doubts in this regard among governmental officials participating in the hearings.[56] However, the

[54] All European governments, especially German and British, decisively influenced the respective national groups in effecting international steel agreements. See, e.g., the discussions in the German Reichstag concerning the International Steel Pact in November–December, 1926, and concerning the British group the address of the President of the Board of Trade, Walter Runciman, at the annual dinner of the Iron and Steel Institute, in London, May 2, 1935, printed in the *Journal of the Iron and Steel Institute*, Vol. CXXXI, I, pp. 309–312. The full text of the main agreement between the British group and the EIA was submitted to the House of Commons in June, 1936, as Annex 1 to the White paper, Cmd 5201, in connection with clause 6 of the Finance Bill, 1936. As a matter of fact, members of the British government, especially Prime Minister Stanley Baldwin, often discussed British participation in the ISC in public meetings. There is an exhaustive discussion of the role of the British government in framing international steel policy of the British government in D. L. Burn, *op. cit.*, pp. 449–515.

[55] Mr. Bash testified before the TNEC (see *Hearings*, Part 20, p. 10933) that the Steel Export Association of America incorporated expressly in all of its international agreements what, in effect, is a paraphrase of Section 2 of the Webb-Pomerene Act. Clause 1-D of the Agreement of the International Rail Makers' Association of August 1, 1937 containing such a paraphrase may be regarded as a means of incorporation in the above mentioned sense.

[56] TNEC *Hearings*, Part 20, p. 10965. The representative of the Treasury Department, Mr. Joseph J. O'Connell, remarked in this connection (p. 10960): "It isn't a question of what would be reasonable for you to do, but what you are permitted to do under the law." And Mr. A. H. Feller, special assistant to the Attorney-General, said (p. 10963): ". . . therefore the question really rises—and I think the fundamental question here is if the provisions of the Webb-Pomerene Act, to the effect that the export business of the outsiders should not be restricted, is to be adhered to, whether it is possible to have an export association at all in this situation."

representative of the Steel Export Association did not recommend a clarification or a modification of the Webb-Pomerene Act by legislative action.[57]

One may question why the British group played such an outstanding role (as party to the agreement and as mediator) in the American negotiations. This was partly due to the independent position which the British held in the framework of the European steel organization[58] and partly because of the natural ease of negotiating with another English-speaking country. During the time the steel pact with America was in operation, the British representatives very efficiently bridged gaps, sometimes very deep, between European and American interests.

The written text of the continental-British-American steel understanding was very brief and sketchy. Indeed, it made not over two typed pages. International steel agreements have not usually been prolix.[59] The most important provision of the accord was the agreement to collaborate on the world steel market. However, many details of cooperation were expected to be agreed upon later. It was implied that Americans would participate in the most important management and policy making activities[60] without interfering with petty internal problems of the European cartel.

[57] Cf. TNEC *Hearings*, Part 20, p. 10965.

[58] *The Times* (London) put this position thus: ". . . the British steel industry is not a member of the International Steel Cartel, but has signed the agreement as one industrial body to another, thus forming a dominant organization over the head of the Cartel itself." *The Times*, Iron and Steel Number, June 14, 1938, p. 5. *The Times* obviously named the EIA the International Steel Cartel, whereas this paper calls International Steel Cartel what *The Times* called "dominant organization."

[59] The general agreement with the British group, dated July 1, 1935, also cannot be regarded as verbose. It is in many regards like the American, something that has been called a "pactum de contrahendo," i.e., a basic pact concerning further agreements having to be established in the future. To be sure, many critical points concerning the British participation in the ISC were settled after the British formally entered the cartel. The chairman of the EIA, Mr. Aloyse Meyer, wrote concerning the verbosity of cartel agreements, that the "ideal entente" should have no written regulations at all. It should be governed "by a chart setting out the general principles of the agreement." "Cartels and Trade Fluctuations," *World Trade*, Vol. IX, No. 6, pp. 62–63.

[60] ". . . as partners, we consider that we are entitled to know what they are *actually* doing." (Quoted from a letter published in the TNEC *Hearings*, Part 20, p. 11020.) In order to facilitate the collaboration with the ISC and the export sale comptoirs the Steel Export Association of America maintained a representative and a bureau in London (Brettenham House, Strand, W.C. 2.).

The parties did not consider deciding differences of opinion, especially as to price policy and to business strategy, by voting or in graver cases by arbitration tribunals.[61] Such a system would not have worked.[62] Though the agreement was effective only until 1940,[63] the three parties of the pact felt subconsciously that if the agreement did not operate, it would be dissolved even earlier, that is, before its contemplated expiration date. The understanding presumed a close collaboration of the American Group even in those comptoirs which America did not join before 1938. Such a close cooperation would have required a set of "sectional agreements." However these sectional agreements remained up to September, 1939, probably unrealized.[64]

The American Group obligated itself by agreeing not to sell in the interior markets of the European national groups,[65] although it avoided, in complicance with the Webb-Pomerene Act, demanding an artificial protection of its own domestic market from European intrusion.[66]

[61] Even in cases where arbitration was provided for as the ultimate means of disposing of ISC disputes, it was avoided. Thus, a rather serious controversy between the IRMA and the American group in 1938 was closed by a "non prosequitur" in a rather sociable manner. Another "case" between the British Group and one of the comptoirs concerning the date upon which the computation of the gold value of a paper £ sum should be based was concluded early in 1939 by the presidents of the EIA and the president of the British Group according to the flip of a coin. Such a procedure, showing a slight contempt for the regular pattern of deciding disputes was based upon a recognition that the difficulty arose from a rather incomplete formulation of the agreement, which could not be supplemented by judicial reasoning. The majority of agreements in the framework of the International Steel Cartel provided for different measures of arbitration, and for an arbitration tribunal as the last instance. If the litigants could not agree upon the umpire, one of them could request the chairman of the International Chamber of Commerce to appoint him.

[62] Mr. Aloyse Meyer (*World Trade*, Vol. IX, No. 6, p. 63) explained impressively why legalistic interpretation is often avoided in international cartel agreements.

[63] See TNEC *Hearings*, Part 20, Exhibit 1448, p. 11020.

[64] There was a striking difference between the position of American producers in comptoirs which Americans entered directly and their position in those entered as a consequence of the general pact. Whereas in the former (e.g. rails, tinplate) Americans were ordinary members though subject to fewer limitations than their fellow cartel members, in the later mentioned comptoirs (e.g., semifinished steel, thick plates) American cooperation was rather loose, and the comptoirs did not direct American business strategy. However, the collaboration extended to quota regulations and uniform prices and extras.

[65] See TNEC *Hearings*, Part 20, p. 10931. The domestic market of European producers was specified in annexes to the export sale comptoir agreements. It included dependencies, colonies, etc. Market interpenetration among European producers was regulated by many specific agreements among the interested national groups also.

[66] Imports intended to be weapons of foreign producers against domestic production could

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Quotas of the American Group in particular commodities were determined according to the export of the year 1936 as a reference period. The American Group insisted on taking 1936 as a base period because this year was more favorable than 1934 which, according to the *Hearings* of the TNEC, was the reference period for the European Groups among themselves.[67] The exports of *all* American exporters were included in the American quotas. This means that from the aspect of the quota accounts of the American Group it made no difference who exhausted or who exceeded the quota, whether members or non-members of the Steel Export Association of America. From the point of view of quota arrangements the American Group was responsible for its outsiders too. This system of being responsible for outside producers was generally adopted in the framework of international steel agreements. Special provisions in the agreements of several export sales comptoirs envisaged the possibility of renouncing the agreements when new outsiders should arise to threaten the smooth working

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be met by several provisions of the existing tariff legislation. The present tariff laws and their influence on imports has been officially analyzed in Report No. 128, *Iron and Steel*, of the U. S. Tariff Commission, *passim*, and in Monograph No. 10 of the TNEC, Clifford L. James, *Industrial Concentration and Tariffs*. Mr. James judges that the duties on the main rolled steel products probably restrict imports appreciably. He believes even (the author does not follow his opinion in this regard) that for these products ". . . removal or substantial reduction of duties would assist in offsetting monopolistic elements in the domestic industries . . ." (pp. 23, 220–228). Mr. Walter S. Tower (*Foreign Affairs*, Vol. V, p. 265) discussed in 1927 the narrow limits of possible foreign competition. The TNEC analyzed the "danger" of European imports in connection with international cartel negotiations. See *Hearings*, Part 20, pp. 10951 and 11018 and W. A. Irvin, "Competition from Imports of Foreign Steel Products," *Yearbook of American Iron and Steel Institute*, 1936, p. 46 ff. See T. W. Stadler, *Kartelle und Schutzzoll* (Berlin, 1933), *passim*, especially p. 56 ff. Concerning the proposition "Either reduce your prices or in will come competitive material," see TNEC *Hearings*, Part 20, p. 10808. See Haberler *op. cit.*, pp. 324–25, 331.

[67] See TNEC *Hearings*, Part 20, p. 10935 As a matter of fact, the year 1934 served as reference period between the British and the continental groups only. The founder groups among themselves used, in computing their global crude steel quotas, the first semester of 1932 as a reference period, with certain corrections in favor of the German and French Groups. The export quotas of those comptoirs which were established in 1933 were negotiated among the founder groups without basing them on a particular reference period. See Carl Graeff, *Die Internationalen Eisenverbände*, Diss. (Düsseldorf, 1935), pp. 76–77. However, article IX of the agreements of the mentioned comptoirs provided for a subsequent correction of the quotas "according to the result of the supervision of the figures pertaining to the reference period."

with the national group in a comptoir;[68] however, these special provisions did not apply for the American Group. Exceeding of quotas by American exporters meant that the "association" would be charged with penalties. Thus it might happen that the members of the association would be obliged to pay the penalties even though they themselves did not exceed the quotas, that is, even when the exceeding was done by the outsiders.

Americans felt that their situation in regard to the outsider problem was more difficult than the position of the European national groups. The first reason for the alleged greater difficulties was that there were several strong outsider-exporters[69] in America, though the association united more than 80 per cent of the regular exports. The second reason was that the Webb-Pomerene Act prevented American members of the association and the association itself from taking aggressive measures to eliminate the outsiders from the market or force them to join the association. The difficulties were even stronger because the outsiders went allegedly to the export market only when conditions on the home market were unfavorable as to employment or when prices on the export market were favorable.[70] European members of the cartel were not always aware that the means of the American Group to fight or make its outsiders join were very restricted. In 1938 the situation became particularly difficult due to the competition of the outsiders. It was stated in the Temporary National Economic Committee investigations that European cartel members were advised that American exporters of the association did not mind the European cartel members reducing the prices on the world market if the price were "sufficiently low actually to eliminate the American outsider."[71] The representative of the Steel Export Association claimed that the policy of the association was not detrimental to the outsider and thus not in violation of the Webb-Pomerene

[68] Such a provision was contained, e.g. in the basic agreements of the semi-finished steel, merchant bar, structural shapes, hoops and strips, thick plates, medium plates, and universal steel comptoirs.

[69] They were called "have nots," TNEC *Hearings*, Part 20, p. 11018.

[70] *Ibid.*

[71] TNEC *Hearings*, Part 20, pp. 10949 ff., 10958, 11020, and Poor's *Industry and Investment Survey in the Iron and Steel Industry*, April 12, 1939, quoted *ibid.*

Act. He contended further that such a policy did not mean compulsion on the outsiders to join the cartel.[72]

During the test period, that is, in the first months of 1938, the American Group felt that it would be too onerous for it to pay penalties due to the exports of American outsiders. That is why it approached the European members of the cartel to amend the first agreement by differentiating between exceeding the quotas by members and by non-members of the association. An agreement was reached relatively soon; however, even this amendment established a light responsibility of the American Group for its outsiders. Thus, by changing the original agreement in this respect, June 14, 1938, the first testing period was regarded as terminated.[73] The confirmation of the amended agreements may be seen in the official communique of the cartel issued after the meeting in Rome.[74] The end of June, 1938, became an important date in the history of the cartel because the fundamental agreement of the EIA and many comptoir agreements expired June 30, 1938. At the very last moment the agreements were renewed until the end of 1940, but, with significant modifications. Smaller readjustments of the American understandings were agreed upon early in 1939.[75]

The American agreement provided for uniform prices according to periodic or incidental accords between the groups. The application of this provision met with some difficulty. One of the reasons was that the American Group was not yet familiar with the intri-

[72] TNEC *Hearings*, Part 20, pp. 10959, 10966. Concerning the extent of American outside competition in South Africa and in the Far East, see the report about the London meetings of the cartel, *Iron Age*, Sept. 22, 1938, pp. 78–79. Vincent Delport describes the appeasement policy of the cartel at the end of 1938 thus: "As a natural consequence, the price structure built up by the European steel entente weakened, and concessions on agreed prices were freely made. British and continental exporters' situation was further affected by continued strong American competition at lower prices than those Europeans could quote officially." *Steel*, Vol. CIV, pp. 253–254. However, *The Economist* saw at that time American competition diminished, whereas Belgian re-rollers sharply raided the market. Vol. CXXXIII, p. 675.

[73] *International Cartels*, Vol. I, No. 1, pp. 16, 17 (1939) and *Iron Age*, July 7, 1938, pp. 84 ff. *The Times* (London) described the situation as it was on June 14, 1938, after the Paris meeting of the enlarged Joint Coordination Committee, as giving "fair promise that an effective agreement will be reached at an early date" with the Americans. June 15, 1938, p. 21.

[74] *Iron Age*, June 9, 1938, p. 77.

[75] *Iron Age*, Jan. 12, 1939, p. 84.

cacies of pricing of the European Groups, and vice versa. A second was that the extra lists pertaining to size, quantity, quality, and lengths among the American and the European Groups were not coordinated.[76] Another difficulty arose in computing delivered prices where the uniform prices were agreed upon f.o.b. The greatest difficulty was that during the first part of 1938 circumstances often required the use of special prices agreed upon from case to case between exporter and the particular export sales comptoir.[77] The remoteness of American producers caused further difficulty.[78]

Soon after the beginning of the testing period of collaboration it become necessary to discuss several important problems of cooperation between European and American Groups.[79] One set of problems arose from the sharp competition by European and American outsiders at the end of 1937 and at the beginning of 1938. An official cartel communique of early March, 1938, directed to its members and to its own accredited intermediaries and agents, threatening the sharpest disciplinary measures[80] for price cutting, makes it obvious that price cutting did not originate always from American non-members of the cartel.[81] To be sure, the year 1938 was one of the worst as to the quantities sold on the export market, taking into account even the years 1932 and 1933. That is why the particular measures against price cutting were not directed against Americans only. The second set of difficulties arose because of the nonrealization of the so-called "sheet agreement." The hearings of the TNEC disclosed the difficulties which the American Group had in trying to get all pertinent sheet producers to join the association. In order to eliminate these two sets of difficulties, four leading personalities of the European Steel

[76] According to the extra lists of the comptoirs, such items as the desire of the customer having the commodity necessarily delivered in open hearth steel played an important role.

[77] See, e.g., *Iron Age*, Mar. 30, 1939, p. 57, about the authorization of comptoirs to deviate from general price policies.

[78] According to p. 11019, Part 20, *Hearings*, of the TNEC, the American Group envisaged the European system of licensing exclusive brokers, jobbers, or export merchants who were responsible for applying the regulations of the cartel.

[79] See *Iron Age*, Feb. 3, 1938, p. 114 D. (Report about the cartel meeting of Paris, January 17, 1938.)

[80] See e.g., the official announcement of the Management Committee of the EIA and the Joint Coordination Committee about the Brussels meetings, in *Iron Age*, Mar. 17, 1938, p. 93B. See also *Iron Age*, Mar. 10, 1938, p. 86.

[81] See *Steel*, Jan. 2, 1939, p. 260.

Cartel sailed at the end of January, 1938, to America. The delegation consisted of the Earl of Dudley, at that time president of the British Iron and Steel Corporation; Mr. I. F. L. Elliott, director of the same corporation; Mr. Spencer Summers, member of the Board of Directors of the British Iron and Steel Corporation and chairman of both the International Black and Galvanized Sheet Comptoirs; and the most versatile Mr. Hector Dieudonné, chairman of the Comptoir Committee of the EIA. The negotiations between the Europeans and the representatives of American exporters were quite frank.[82] The European delegation expressed itself as satisfied with the results of its American trip.[83] The leader of the European delegation, the Earl of Dudley, declared two days after his return from New York at the annual dinner of the Staffordshire Iron and Steel Institute that he discussed with the leaders of the American steel industry, "the machinery already established within our cartel arrangements for insuring that stupid and senseless cutthroat competition would not be added to the other difficulties in the way of export business. . . ." He had the impression that the leaders of the American steel industry wholeheartedly agreed with these objectives.[84]

In order to support a close cooperation with the particular comptoirs an agency had been set up in London to enhance cooperation with America. It consisted of the London representatives of the Steel Export Association of America, a representative of the Comptoir Committee of the EIA, a representative of the British Iron and Steel Federation, and a neutral chairman, probably a partner of a public accountant firm in London.[85] It is hard to say whether this agency operated during the year 1938. An official report of the EIA from June, 1939, says that the members of the special agency met frequently and worked satisfactorily.[86]

[82] TNEC *Hearings*, Part 20, pp. 10948, 11018.

[83] According to a report, under the dateline New York, the British delegation sailed on February 10, 1938, from New York on the Queen Mary without revealing the outcome. "The impression in interested quarters here is," reports Reuter, "that the results are entirely negative." *The Financial Times* (London) remarked in its issue of March 7, 1938, emphatically, "The Cartel has now entered upon a new phase . . . ." An extract of the article of *The Financial Times* which gives a good survey about the situation at that time may be found in Alfred Plummer, *International Combines in Modern Industry*, (London, 1938), p. 258.

[84] Quoted from *Iron Age*, Mar. 10, 1938, p. 87.

[85] Plummer, *op. cit.*, p. 258, *Iron Age*, Mar. 10, 1938, p. 86, and Mar. 17, 1938, p. 93 B.

[86] *International Cartels*, Vol. I (1939) No. 2, p. 14.

VI

The general participation of America in the International Steel agreements lasted, including the testing period, altogether 18 months. It may be safely stated that the collaboration did not approach perfection but improved steadily. The period was too short and political and economic cirumstances during the time that cooperation took place were too extraordinary.[87] An official communication of the EIA in Luxemburg, published a few months before the outbreak of the Second World War, regarded the collaboration between American and European exporters as perfected, although some details were still to be settled and the disturbances of the American outsiders were still felt.[88]

After the start of the Second World War a new form of collaboration began between American steel producers and the British Iron and Steel Corporation as the representative of both British and Canadian steel producers.[89] However, this cooperation cannot be regarded as an extension of old collaboration in the framework of the ISC.

Future cooperation on the world steel market between United States steel producers and their colleagues in other countries depends primarily on the degree of political organization or disorganization in time to come. Modernized plants and enlarged capacity on the one hand, and ruined or outworn plants on the other hand might be reasons for a new "equilibrium." The search for foreign exchange and the desire to mitigate unemployment caused by the demobilization of military forces may impel governments to press for large steel exports. Huge domestic and foreign investments in restoring areas destroyed by war, in replacing sunk ships, and in re-established transportation facilities may sooner or later enhance steel production.

[87] An official document of the League of Nations registering international agreements between producers and others—No. E. 1067—dated in Geneva, March 15, 1939, says on p. 8 regarding the American Steel cooperation, "In spite of the agreement concluded between the Cartel and the Steel Export Association of America, American competition is still noticeable. The agreement between Europe and the United States does not yet seem to be firmly established."

[88] *International Cartels*, 1939, No. 2, p. 14.

[89] *Iron Age*, Jan. 30, 1941, p. 84. The British agency established a central fund in order to compensate manufacturers purchasing imported American material because these commodities were more expensive. *The Economist*, Nov. 2, 1940, p. 559.

One might ask whether international combinations of the cartel type, i.e. pure marketing units of independent entities, as contrasted to combinations of enterprises tied together by intercorporate arrangements, proved successful in administering prices and controlling the export steel market.[90] This question has to be answered in the affirmative. The discussion of the reasons for the effectiveness of the cartel type in organizing the national steel markets and the international steel export market would require a separate study.[91]

The most interesting point in the current development of the American export steel market is the fixing of "ceiling" prices for export steel products by a public agency.[92] Such a measure in the American economic system illustrates the exigencies of the present emergency rather than future developments.

[90] Haberler, *op. cit.*, p. 330, considered the ISC and its export sale comptoirs as cartels consisting of enterprises often connected by intercorporate activities. That is why he put them into one category with many of the combinations of the chemical and artificial silk industries. The significance of the intercorporate connections in steel combinations was overemphasized by Frederic Benham, "The Iron and Steel Industry of Germany, France, Belgium, Luxembourg, and the Saar," *London and Cambridge Economic Service*, Oct. 1934. Louis Domeratzky, "Cartels and the Business Crisis," *Foreign Affairs*, Vol. X, p. 51, placed in the category of combinations of the corporate type only combinations of the non-ferrous metal industries.

[91] In the steel industry there does not exist to the same extent and in the same manner the necessity for exchanging patents and technical experiences which furnished one of the main reasons for the formation of combinations of the corporate type in certain chemical industries.

[92] "Iron, Steel Price Schedule," April 16, 1941, issued by Administrator Leon Henderson, cf. *Steel*, Apr. 21, 1941, pp. 23–24.

AFTER THE SHUTDOWN IN HOWLAND, MAINE

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The job-hunting experience of workers thrown out of work by technological change has been the subject of an increasing number of empirical studies. This study deals with the effect the southern migration of a mill had upon a group of men and women workers in a small town in northern Maine.

A kraft pulp and paper bag mill, owned by the Advance Bag and Paper Company, at Howland, Maine, closed August 27, 1938. With the exception of a run of six weeks in February and March, 1939, to finish the utilization of stocks on hand, this completed the transfer of production to a southern mill erected by the owning company in Louisiana in 1931. The causes of the shutdown were essentially technological. The cheaper production of sulphate pulp from southern pine, based on processes perfected by 1922, has led to an expansion of southern kraft production, especially in the last decade.[1] The closing of the mill meant an end to more than 50 years of pulp and paper production in Howland.

A list of the displaced workers was obtained from the files of the local union[2] affiliated with the International Brotherhood of Pulp, Sulphite and Paper Mill Workers. This list of 231 workers included more than 90 per cent of those employed in the plant at the time of the shutdown. Of these 231 workers, 150, or nearly

[1] L. T. Stevenson, *The Background and Economics of American Papermaking*, p. 30.

[2] The union local was first organized in 1916 and won recognition in 1917, following a two-day strike. Its closed shop agreement was renewed until 1929, when the new mill management of that year began efforts to bring about the dissolution of the union. This new policy was successfully carried out. In the spring of 1938 wage decreases ranging up to 27 per cent and 31 per cent for men and women respectively were initiated. The union was reorganized, but the shutdown of August prohibited further action. In February, 1939, the union leaders were not rehired when the mill reopened. Upon protest, the reinstatement of these leaders and the recognition of the union were agreed to by the management before a representative of the National Labor Relations Board on March 6, 1939. Within two weeks, however, the mill closed down permanently without a conference between union and management.

two-thirds, were interviewed in July, 1939, approximately 11 months after the shutdown. It is known that 21 of the remaining 81 who could not be located had left the state.

I

Age, sex, marital status, home ownership, dependency, skill, occupational habituation, and income are important factors that affect the adjustments of displaced workers. The following description of the disemployed Howland workers is based on the statements of the 150 workers interviewed.

One hundred and seven workers were men, whose average age at the time of the shutdown was 40.5 years. Only 14.9 per cent of the male workers were under 30 years of age, and nearly one-fourth (23 per cent) were 50 or over. The 43 women, on the other hand, were younger. Their average age was 31.4 years. Seventy per cent of them were in the age group 25–34 inclusive, and only one-fifth (20.9 per cent) were 35 years old or more.

Approximately 90 per cent of the 150 workers were married and had dependents to support. The average number of dependents per worker was slightly more than three, while one-fourth (24.0 per cent) of the workers had five or more dependents. Only four men and two women were single, while one man and six women were widowed, separated or divorced. Nine of the 43 women (approximately one-fifth) were obliged to be the sole supporters of themselves and dependents.

Typical of small mill towns, the workers had "settled down," making Howland their permanent home. A majority (52 per cent) of the workers owned or were buying their own homes. The 150 workers had lived in Howland[3] for 17.4 years on the average. More than one-fourth (27.3 per cent) had resided there for more than 30 years, while only 10 per cent had moved to Howland in the last decade before the shutdown.[4]

Most of the workers had worked in the pulp and bag mill in

[3] Or in West Enfield, a town which is part of the same community, located directly across the Penobscot River from Howland.

[4] One-fifth of the 150 workers were born in Howland or West Enfield, and slightly over 86 per cent were born in Maine. The remainder came from other states (3.3 per cent), from Canada (mainly New Brunswick) (7.3 per cent) and from Europe (2.6 per cent). The French-speaking workers (some 15 per cent) were second-generation, American-born.

Howland the greater part of their working lives. This occupational habituation did not prove to be an advantage to them when they attempted to find new jobs. The average length of time during which the workers were employed at the mill was 15.0 years for the men, 10.8 years for the women, and 13.8 years for the group as a whole. The average male worker was 25.5 years of age, the average woman 20.6 years, when they first entered the mill. For the group as a whole, 68 per cent of the workers at that time were under 25 years of age, 41 per cent were under 20, and three were under 15.

Characteristic of the pulp and paper industry, the majority of the workers were skilled and semiskilled employees. All of the women workers were semiskilled, while the greater number (59.8 per cent) of the men also had semiskilled jobs. A third (32.7 per cent) of the men were skilled workers, and only 7.5 per cent unskilled. Four-fifths of the skilled workers had the specialized skills peculiar to the pulp and paper industry.

Information obtained about wage rates before the shutdown indicated that in 1938 the Howland workers received the lowest wage rates per hour of any pulp and paper workers in the state of Maine (during 1938). A wage-cut of 12 cents an hour, put into effect that spring, lowered the basic rates of pay to 32 and 27 cents an hour[5] for men and women, respectively. Nearly all of the semiskilled as well as unskilled labor received the minimum rates of pay, although in the industry as a whole a small proportion of the workers (some 15 per cent) receive the base rates. Of the 107 male workers, 68 per cent were paid at the rate of 32 cents an hour, and all but one of the 43 women received 27 cents an hour. Skilled workers at the time of the shutdown received generally 44 cents an hour, while the "tour boss," the highest paid of those studied, received 50 cents an hour.[6]

II

By the end of July, 1939, eleven months after the shutdown, more than one-third (38.0 per cent) of the 150 workers were unem-

[5] Except for repair and maintenance men, hours per week varied from 40 to 44.

[6] This was lower than the base rate for common labor paid at that time in the unionized newsprint mills in Maine.

ployed. Only 17, or less than one-sixth (15.9 per cent) of the men were without jobs, but 40 of the 43 women were unemployed. The high percentage of unemployment among the women workers was caused largely by the lack of demand for women labor in the vicinity.[7] The low ratio of unemployment among the men is at first surprising, in view of Howland's relative isolation[8] and the slight rise in manufacturing activity during 1938–39.[9] The type of employment secured will be considered later in the study.

The period of unemployment for the 150 workers averaged more than the total number of weeks allowed for unemployment compensation benefits in the state of Maine. The average number of weeks of unemployment during the 11 months was 28.3 for men and 43.7 for women.[10] This meant that the men and women lost, respectively, 59 per cent and 91 per cent of their total possible working time between August, 1938, and July, 1939. Only 73 men furnished information concerning the time they received their first jobs after the shutdown. One-fifth (21.9 per cent) obtained work during the first seven months, while one-half (50.7 per cent) failed to find new employment until June and July, 1939.[11]

Age was one important factor affecting unemployment among the men workers. None of the men below 30 years of age were unemployed in July, 1939, while 50 per cent of those 60 years of age and over were without jobs (see Table I). The correlation between the average number of weeks lost and age also indicated that the older worker was unemployed for a longer period of time.

The degree of skill possessed by men workers seems to have had little effect on re-employment. Semiskilled workers had a slight advantage over the skilled and unskilled workers (see Table II).

[7] Because of the small number of women who found employment, they will not be considered further. The three women found semiskilled jobs within a radius of 50 miles of Howland. Two of the jobs were in other manufacturing industries, while the third was a temporary waitress job.

[8] Howland and Enfield, whose total population in 1930 was 2742, are located 37 miles north of Bangor, the largest city in northern and eastern Maine. Bangor's population in 1930 was 28,701.

[9] *Index of Maine Business Activity* (compiled by the Department of Economics, University of Maine) showed a rise of 1.2 per cent from August, 1938, to July, 1939.

[10] 72.9 per cent of the men and 46.1 per cent of the women worked during the reopening of the mill in February and March, 1939.

[11] The time before new jobs were found did not include work at the mill during the six weeks of employment in 1939.

In July, 1939, 14.1 per cent of the semiskilled workers were unemployed, while six of the 35 skilled workers (17.1 per cent) had no jobs. Two of the eight unskilled were unemployed, but age was a decisive factor here: one was 54 years of age, and the other 74. Five of the six unemployed skilled workers had skills peculiar to

TABLE I

UNEMPLOYMENT IN JULY, 1939, AND TIME LOST FROM AUGUST, 1938, TO JULY, 1939, OF MALE WORKERS BY AGE GROUPS

AGE GROUPS	TOTAL MALE	UNEMPLOYED		TIME LOST IN WEEKS	
		Number	Per cent	Total	Average
15–29	16	0	0	415	25.3
30–39	38	5	13.2	939	24.7
40–49	28	5	17.9	851	30.4
50–59	19	4	21.1	605	31.8
60 and over	6	3	50.0	221	36.8
Total.........	107	17	15.9	3031	28.3

TABLE II

PRESENT JOBS, ACCORDING TO SKILL, AND UNEMPLOYMENT OF MALE WORKERS BY FORMER SKILLS

CLASSIFICATION BEFORE SHUTDOWN (SKILL)	NUMBER	EMPLOYED IN JULY, 1939								UNEMPLOYED	
		Total		Job Classification							
				Skilled		Semi-skilled		Unskilled			
		Number	Per cent	Number	Per cent	Number	Per cent	Number	Per cent	Number	Per cent
Skilled............	35	29	100.0	8	27.6	6	20.7	15	51.7	6	17.1
Semiskilled........	64	55	100.0	0		12	21.8	43	78.2	9	14.1
Unskilled..........	8	6[a]	100.0	0		1	16.7	4	66.7	2	25.0
Total...........	107	90[a]	100.0	8	8.9	19	21.1	62	68.9	17	15.9

[a] One worker became a farmer.

the paper industry. The average age of the six unemployed skilled workers was only 43.

The jobs obtained by the Howland workers within the 11-month period can hardly be said to have compensated the worker for the time lost. The majority of jobs were highly seasonal, paid low wages, and required little skill. The nature of the temporary work is shown by the fact that three out of every four men (73.3 per cent) employed in July, 1939, were working at one of the fol-

lowing jobs: cutting and peeling pulpwood (23.3 per cent), cleaning and shipping the pulpwood the Howland Company had on hand (18.9 per cent), "common labor" (11.1 per cent), "odd jobs" (10 per cent), road construction (5.6 per cent), and work in sawmills (3.3 per cent).

A majority of the workers were forced into jobs requiring little or no skill (see Table II). Of the formerly skilled workers, 51.7 per cent were found in unskilled occupations. Only 27.6 per cent remained in skilled employments. Over three-fourths (78.2 per cent) of the formerly semiskilled with jobs had unskilled tasks.

TABLE III

INDUSTRIAL DISTRIBUTION OF EMPLOYMENT OF MALE WORKERS ELEVEN MONTHS AFTER THE SHUTDOWN

INDUSTRY	NUMBER		PER CENT	
Total		90		100.0
Manufacturing		36		40.0
Pulp and paper	33		36.7	
Other	3		3.3	
Nonmanufacturing		54		60.0
Transportation	2		2.2	
Trade	1		1.1	
Building and construction	9		10.0	
Agriculture	1		1.1	
Forestry	29		32.2	
Other	12		13.4	

One of the former unskilled workers became a farmer, another a truck driver, while the rest remained at common labor.

During the 11 months of shutdown, 40 per cent of the workers with jobs remained in manufacturing industries (see Table III). More than half of those who entered nonmanufacturing industries went into forestry. Of those who continued with jobs in manufacturing, three workers were in fields other than pulp and paper. Of the 33 who remained in the pulp and paper industry, 28 could not look forward to permanent jobs since they were employed at the Howland mill removing materials and dismantling the equipment.[12]

[12] Several of the few permanent jobs acquired in the pulp and paper industry were secured with the cooperation of the international officers of the union.

The wages reported in July by 78 of the men who had acquired new employments were relatively lower than wages previously received at the mill (see Table IV).[13] Thirty-five (44.9 per cent) were receiving less than $12.00 a week. Wage decreases were reported by 51.3 per cent of the 78 workers, while a third (34.6 per cent) reported wage increases. Eight workers (10.3 per cent) received weekly wages that were as high as or higher than the top wage paid at the mill before the shutdown.

The geographical distribution of jobs held by male workers in July, 1939, reveals that two-thirds of the workers migrated from the town of Howland to find employment. Nearly one-half (42.2 per cent) of the new jobs were located at a distance of 50 miles or more from Howland. Twelve of the 90 employed male workers (13.3 per cent) had jobs outside of Maine: 10 were working in other New England states, and two were employed in New Jersey.

TABLE IV

WEEKLY WAGES RECEIVED BY MALE WORKERS FROM PRESENT JOBS COMPARED WITH WEEKLY WAGES BEFORE SHUTDOWN

BEFORE SHUTDOWN			ELEVEN MONTHS AFTER SHUTDOWN					
Weekly Wage	Male Workers		Unemployed Number	Employed[a]		Per cent Wage Increase	No Change	Per cent Wage Decrease
	Number	Per cent		Number	Per cent			
$12–13	80	74.8	14	57	73.1	35.1	15.8	49.1
14–15	10	9.3	1	8	10.3	37.5	0	62.5
16–17	10	9.3	0	9	11.5	33.3	22.3	44.4
18–19	6	5.6	2	3	3.8	33.3	0	66.7
20–21	1	1.0	0	1	1.3	0	0	100.0
Total.....	107	100.0	17	78[a]	100.0	34.6	14.1	51.3

[a] Twelve employed male workers did not report wages on new jobs (see text, note 13).

The shutdown of the mill, with the consequent unemployment of its workers, led to a general lowering of the standard of living of the Howland workers. Unemployment compensation benefits were inadequate. During the fall and winter of 1938, two-thirds of the claims of the male workers ranged from $8.50 to $11.00 a

[13] Twelve employed male workers did not report wages on new jobs. They were probably receiving lower wages than at the mill. Eight of them had "odd jobs," which meant a small, uncertain income each week.

week, while over two-thirds of the claims of the women workers ranged from \$7.50 to \$8.00 a week. The maximum period of 16 weeks allowed for benefit payments in Maine was too short. Very few of the workers found new jobs within the first four months.

Early in 1939 conditions were so severe that a petition was sent by citizens of Howland to the state legislature asking for food and clothing for 175 families without any means of support. As a result of this petition, some clothes were received and food was occasionally distributed through the Federal Surplus Commodities Corporation.

Although many of the men received jobs by July, employment was temporary and paid low wages in the majority of cases. The problems of these people, the result of the mill's moving south, are not likely to be solved until more permanent industries offer them jobs.

COMMUNICATIONS

A TERMINOLOGICAL NOTE ON INDIFFERENCE CURVES

The use of the identical term, *indifference curve*, for two different graphic illustrations based on two different assumptions, has led to error and misunderstanding. This note proposes to recognize the variance in the character of these curves, and in their underlying assumptions, and to suggest a change in terminology which would tend to clarify differences in the two types of exposition.

Prof. Edmund Whittaker's recent work, *A History of Economic Ideas*[1] seems to fall into the common trap of confusing the two curves and, hence, leads to a further misrepresentation of the historical development of indifference curve analysis. His treatment and the identity of terms make students of the history of economic thought readily susceptible to an erroneous impression.

In discussing the history of value theory, Prof. Whittaker traces the development of the indifference curve analysis from Alfred Marshall to J. R. Hicks as follows:[2]

> In *The Pure Theory of Foreign Trade*, circulated privately in 1879, Marshall gave an interesting construction to represent the gains resulting from free exchange. He illustrated England's demand for German linen, and Germany's demand for English cloth, by a pair of what are now called *indifference curves* . . . .[3]
>
> The Italian economist, Maffeo Pantaleoni (1857–1924), who obtained a copy of Marshall's paper, incorporated the idea in his *Principi di economia pura* (Florence 1889, second edition 1894). In the meantime in England F. Y. Edgeworth had given mathematical expression to the conception of indifference curves in his *Mathematical Psychics* and employed the curves in his article on *The Pure Theory of International Values* (*Economic Journal*,

[1] Pp. 448–449.

[2] *Ibid.*

[3] Italics are contained in the original. Prof. Whittaker then explains the Marshallian curve, reprinted in Alfred Marshall, *The Pure Theory of Foreign Trade and Pure Theory of Domestic Values* (London School of Economics and Political Science, London, 1930). A similar exposition may be found in Marshall's *Money, Credit and Commerce*, pp. 162 ff. and Appendix J.

1894). At Lausanne later, Pareto was to develop them in a most ingenious manner in his treatment of economic equilibrium.

This treatment of indifference curve development shows a confusion: the Marshallian curve (Chart I) is not the same as the indifference curve taken over from Edgeworth via Pareto by Hicks and Allen.[4] First, the mechanics of the two curves are different; second, the underlying assumptions of the Marshallian curve are dependent upon a utilitarian philosophy.

I venture to suggest the use of the term ***barter-indifference*** curve for the Marshallian curve; although Marshall appears to have employed it first to illustrate a general theory of international values, it could be similarly used to depict possible barter ratios. In fact, the theory of international values which Marshall presented is but little more than an extension of his barter analysis to trade between two countries.[5]

Taking the classical apples and nuts illustration, and assuming a Mr. I who possesses apples and a Mr. II who possesses nuts, we might construct a curve, as in Chart I, similar to that used by Marshall in *The Pure Theory of Foreign Trade*.

OII is constructed so that the abscissa of any point, say P, gives the number of nuts Mr. II will be willing to exchange for the number of Mr. I's apples represented by the corresponding ordinate; that is, Mr. II will be just willing, and only just willing, to give OM′ nuts for PM′ apples. He would not be willing to give OM′ nuts for anything less than PM′ apples, say P′M′ apples, although he would be willing to exchange for anything more than PM′ apples, say P″M′ apples. The series of points which form OII are, therefore, points at which Mr. II is indifferent to exchange. There is nothing in the nature of the curve to indicate that Mr. II would be indifferent to exchange as between points P and A; as between an exchange involving OM′ nuts for PM′ apples and one involving OM nuts for AM apples. The exchange ratio $\frac{PM'}{OM'}$, is

[4] See J. R. Hicks and R. D. G. Allen, "A Reconsideration of the Theory of Value," *Economica* (1934); R. D. G. Allen, *Mathematical Analysis for Economists*, pp. 124–126; "Professor Slutsky's Theory of Consumer's Choice," *Review of Economic Studies* (1936); and J. R. Hicks, *Value and Capital*, pp. 12–16.

[5] See G. von Haberler, *The Theory of International Trade*, pp. 150–159.

represented by the slope of the straight line OG relative to the OX axis. A similar analysis applies to curve OI. It is apparent that, if the bargaining power of Mr. I and Mr. II are exactly equal, the exchange would take place at A, with AM apples exchanging for OM nuts. In the absence of equal bargaining powers, the curves merely bound the area within which it is possible for exchange to take place (OBAP); the quantities exchanged and the ratio of exchange are dependent upon the relative bargaining powers.

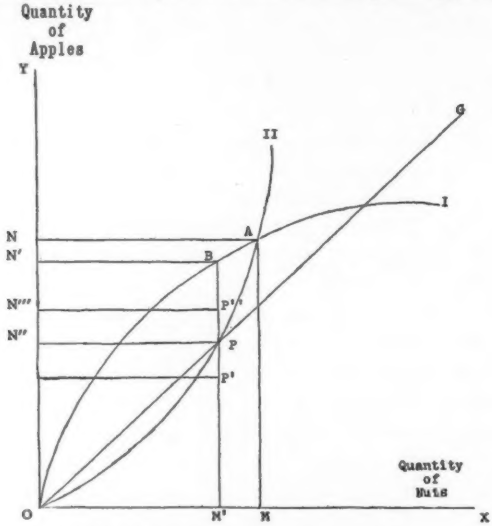

CHART I. THE BARTER INDIFFERENCE CURVE

The formal relation of the *barter-indifference curve* to the Jevonsian utility curve (Chart II) should be noted. Curves OI and OII in Chart I differ from the utility curves of Mr. I and Mr. II for nuts and apples in the following way: ordinates of the curve in Chart II measure the degree of utility (du/dx); ordinates of the curves in Chart I measure total utility (du/dx times x). That is, the ordinates of OI in Chart I measure the areas of successive rectangles inscribed in the Jevonsian utility curve of Chart II.

The second kind of indifference curve, the curve which Edgeworth introduced and Pareto developed and applied,[6] is of quite

[6] Henry Schultz, *The Theory and Measurement of Demand*, p. 13.

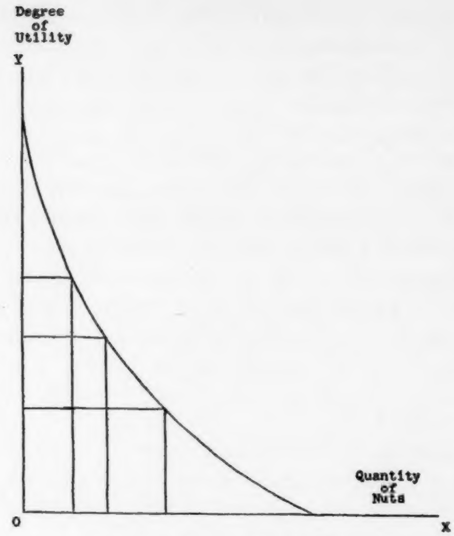

CHART II. JEVONSIAN UTILITY CURVE

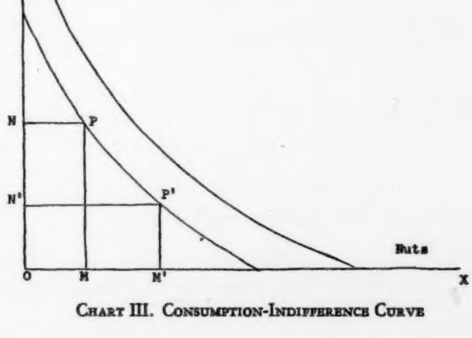

CHART III. CONSUMPTION-INDIFFERENCE CURVE

a different nature. Following Jacob Viner we might well term this curve a *consumption-indifference curve.*[7] An abbreviated form of the Paretian indifference curve is reproduced in Chart III. Quantities of apples and nuts are measured along the axes as before, but now curves 1 and 2 may be taken to represent two of an infinite number of Mr. II's consumption indifference curves for apples and nuts. Since P and P′ are on the same consumption-indifference curve, Mr. II is represented as having no preference to possessing OM′ nuts and ON′ apples or OM nuts and ON apples. The total satisfaction derived from any of the combinations of apples and nuts represented by the corresponding ordinates and abscissae of the various points P is exactly equal; to the consumer they are points of indifference as to consumption. Curve 2 is a consumption-indifference curve representing a greater total satisfaction at each of its points.[8]

The difference in underlying assumptions is now readily apparent. Barter-indifference curves of the type in Chart I require the assumption that the utility curves of Mr. I and Mr. II are ascertainable; i.e. that utility can be measured quantitatively. Consumption-indifference curves, on the other hand, require no such assumption; they require only that one assume Mr. II is able to tell whether he prefers one combination of nuts and apples to another, without necessarily being able to say by how much he prefers it.

There exists a strong presumption that the identity in terminology arises from the use of both types of curve in illustrating theories of international values.[9] No doubt it would be preferable to use *indifference curves* for what I have termed consumption-indifference curves above, and then adopt an entirely different term for the barter-indifference curve. However, the possibilities for a substitute for barter-indifference curve which have thus far come to mind left me quite cold (*apathetic curves*, for example, strikes no sympathetic note), and I have attempted to solve the difficulty by using the awkward, but effective, auxiliary word.

Earlham College ARTHUR KEMP

[7] Jacob Viner, *Studies in the Theory of International Trade*, p. 522.

[8] Hicks, *op. cit.*, pp. 13–15.

[9] Compare Whittaker, *op. cit.*, p. 448; Haberler, *op. cit.*, pp. 150–155; Viner, *op. cit.*, p. 521; and Wassily W. Leontieff, "The Use of Indifference Curves in the Analysis of Foreign Trade." *Quarterly Journal of Economics* (1933).

BOOK REVIEWS

The International Gold Standard Reinterpreted, 1914–1934. By William Adams Brown, Jr. New York: National Bureau of Economic Research, 1940. Two Vols. Pp. xxx, 1420. $12.00.

Professor Brown, already distinguished for his study of *England and the New Gold Standard,* has succeeded to a remarkable degree in combining a statistical and analytical study of the gold standard in the period from 1914 to 1934. It is a tribute to his achievement to say that these two volumes are interesting for reading and invaluable for reference.

The approach that is emphasized throughout this study is the functioning of the gold standard in an institutional environment gradually developed to meet the requirements of an international monetary system. Fundamentally, the gold standard prior to 1914 is conceived as a sterling exchange standard, and gold standard policy throughout the world was to maintain a close link with sterling. The usefulness of this link as well as the means of maintaining it, arose from the close economic and financial relations between England and other countries.

The leading commodity exchanges of the world were located in England and in a very real sense changes in the prices of basic commodities reflected transactions, both spot and future, in the English commodity exchanges. England itself was a tremendous importer and exporter of goods from and to all countries both for consumption and for re-export. British financial institutions provided the short-term lending that facilitated the current exchange of goods in international trade, and the long-term lending that contributed to the economic development of new countries and the long-period movement of goods in international trade. The flow of payments to and from London closely linked the financial centers of other countries to London and to sterling. The London Stock Exchange listed the leading securities of other countries. London was the distributing center for most of the newly-mined gold. The convenience, in fact the necessity, of

holding balances of sterling gave to London a deposit-compelling power that contributed still further to the identification of sterling and gold.

This concept of the gold standard before 1914 is not novel. But in Mr. Brown's new work it is thoroughly elaborated and convincingly stated. Nevertheless, we may express some slight doubt of the complete identity of sterling and gold in the eyes of the financial community before 1914. We cannot overlook the fact that at times England could not satisfy sudden increases in the world's demand for gold by providing additional sterling balances. On several occasions the Bank of England was compelled to seek assistance from the Bank of France. This is not to deny that the comparatively small gold holdings of Great Britain were ordinarily sufficient for most purposes because of the high degree of substitutibility of sterling balances to gold. Perhaps this is all that Mr. Brown means when he speaks of the gold standard as a sterling exchange standard prior to 1914.

Before the war in 1914, the indispensability of the gold standard was universally acknowledged. For this reason great stress was placed on preserving the outer forms when the substance of the gold standard was sacrificed to the exigencies of war. It is amazing that the strong hold of these external characteristics on the minds of the public, for example, the holding of gold reserves, permitted the fiction of the continued maintenance of the gold standard throughout the war. Further, to the extent that the prewar gold standard represented a traditional system of exchange rates, the pegging of these exchanges during the war contributed to the illusion that the gold standard was still being maintained.

The difficulty of postwar stabilization was not fully realized by contemporary statesmen or economists. There was a general tendency to overlook the obstacles to the restoration of the gold standard. While the relation of local prices and costs to exchange rates was understood, there was an optimistic indifference to the problems inherent in the restoration of the gold standard at exchange rates that overvalued and undervalued the leading currencies in relation to each other and the dollar. There was too much faith in the self-adjusting capacity of the economic system and the gold standard.

Mr. Brown's detailed study of the re-establishment of the gold standard in each of the major countries is informative and useful. He shows in his discussion that what was restored was a decentralized international financial system with leadership divided between New York and London. Despite its capacity for performing some of the functions of gold standard leadership, the New York money market lacked many of the institutions without which its resources could not be directed toward maintaining an effective international standard. In fact the interest of New York financial institutions in the development of an international money market was definitely secondary to their interest in the domestic money market.

On the other hand, in Great Britain, the capacity to exercise control of an international monetary system was seriously impaired by the war. The leadership of London in long-period lending was at best shared with New York. Perhaps in short-period international lending London still retained its leadership. But its deposit-compelling power had diminished, and while London still attracted balances, they were not the dependable type of the period before 1914 but flighty and unfaithful.

Precise reasons for the collapse of the gold standard so soon after its re-establishment will no doubt be a subject of study for many years to come. The heritage of the war was unquestionably a factor of some consequence. Mr. Brown has given an excellent presentation of the significance of the decentralization of the world credit structure and the lack of balance in the world economy as factors in this collapse. Structural changes in the world economy that grew out of the war are recognized by Mr. Brown as factors in the failure of the postwar gold standard. At times, however, his interest in the institutional aspects of an international monetary system leads him to underestimate the significance of the structural economic factors.

It would have been useful to have some discussion of the developments that were already manifesting themselves before 1914. What effect could have been expected from the rise of the industrial power of the United States and other young countries? What effect could have been expected from the expansion of the American economy and its role in international lending? Not all that oc-

curred between 1914 and 1920 was due to the war. Some of it, how much of course must remain a question, would have occurred under any circumstances. It is indicated in the introduction and intermittently throughout the book that these two volumes are part of a larger work on the nature and functions of the gold standard since 1873. Perhaps the volume on the earlier period will consider this question.

This is an indispensable book for economists interested in the behavior of the gold standard in the critical decades from 1914 to 1934. Its significance is only partly indicated by this summary statement of the important conclusions of the author:

> The elaborate studies carried through since 1932 have confirmed us in the conviction that what was really destroyed in 1914 was the high degree of centralization of the world's credit system in London, which, in combination with the strong international creditor position of Great Britain, made the pre-war gold standard essentially a sterling exchange standard system; that that system was not and could not have been restored at any time after the war; that some genuine alternative to that system must be found if the pre-war stability of international financial relations is ever to be regained; and that among the prerequisites of such an alternative is the successful attainment of stable domestic credit conditions in both Great Britain and the United States, and a substantial degree of harmony in the broad lines of credit policy adopted in these two countries.

Washington, D. C. E. M. BERNSTEIN

Business Cycles. By James Arthur Estey. New York: Prentice-Hall, 1941. Pp. xvii, 544. $3.75.

This volume represents a simple but fairly comprehensive introduction to the study of business cycles. The author provides a clear and intelligent discussion and analysis of the problem. The book is eclectic in nature and does not pretend to be an original piece of research. The material shows the result of careful selection and is well arranged and logically organized. The author should be commended for using such a simple and readable style in the discussion of so complex a problem even though at times the writing lacks punch and distinction.

He divides the work into three parts. The first section is given over to description, in an effort to give an accurate picture of cyclical fluctuations and what develops as a result thereof. In the second part, which is devoted to causation, the author gives a lucid and critical account of the various business cycle theories. He concludes that in the present state of our knowledge, neither logical consistency nor statistical verification will enable us to choose with confidence among the different, and to some extent contradictory, theories of the business cycle now being offered. The author seems more willing to go along with Professor Wesley Mitchell, who limits his account to mere description, unencumbered with theory, of how one phase gives way to another in an endless round of fluctuation. The problem of control is considered in great detail in the third section. Dr. Estey examines carefully the various ways by which the extent of economic fluctuations may be reduced and subjects each proposal in turn to critical analysis. He carefully weighs the social gains and social costs of stabilization and admits that some fluctuations may be beneficial. The author is particularly critical of stabilization measures that decrease the outlet for the potential capital which the habits of society pile up in considerable volume, or those which pushed progressively, may dangerously cramp the efficiency and reduce the buoyancy of private investment. He believes that the most effective means of averting stagnation is to encourage by every device the progress of technology. This would involve new methods, new resources, and new industries to give outlets to the savings of society. In the opinion of the reviewer, this is the most interesting part of the work and it is in this section that the author makes his greatest contribution to the current literature on business cycles.

Convenient references are supplied in brief bibliographies at the end of each part, and other references are given to specific subjects in the course of the chapters. The footnotes and statistical material are kept well below the burdensome level. Considered as a whole, this work should provide an excellent introductory text for the study of business cycles.

Mundelein College L. THOMAS FLATLEY

The Baltimore Clearing House. By Chester A. Hales. Baltimore: Johns Hopkins Press, 1940. Pp. xiii, 347. $3.00.

Texts on banking usually present a brief and fairly well-stereotyped outline of the nature and function of clearing houses. A few more specialized studies, most of them not very recent, have presented somewhat more detailed treatments. Professor Hales gives us a detailed factual record, so far as his sources permit, of the Baltimore house. There is nothing astonishing in his findings, but some of his material, particularly that dealing with action during crisis, including that of 1933, and the par collection controversy between the Federal Reserve Bank of Richmond and the North Carolina state banks, is of peculiar interest. Other topics include the administration and development of the Baltimore house, daily exchanges and the settlement of balances, aid to members during ordinary times, regulation of exchange charges, and other regulations.

University of North Carolina A. G. Griffin

Fiscal Capacity of the States. By Division of Finance and Economic Studies, Bureau of Research and Statistics, Bureau Memorandum No. 43, January, 1941. Washington, D. C.: Federal Security Agency, Social Security Board. Pp. iii–vii, I-1 to I-66, 1–406.

This bulky loose-leaf volume is a revision of a memorandum used for administrative purposes by the Social Security Board staff. The original was published in 1937 and revised and republished in April, 1938; this edition is dated January of the current year. The material incorporated is intended to assist in dealing with problems of policy incidental to carrying on the work of the Social Security Board. Although the state-by-state tabulations, covering a period of years usually 1927 to 1939 but varying with statistics available, constitute the bulk of the volume, the most usable materials are found in pages 1–52 to 1–66 inclusive where comparative statistical tables for all states reflect the most recent data available.

The statistics intended to show the financial competence of each of the several states to support social services are much the same as those employed by various other students who have analyzed such data, but the figures are somewhat more complete than usually have been available in one place, and the analysis is definitely less extensive than that found elsewhere. The editorial policy has

been consistent with making the volume merely a "source book"; indeed, "no attempt has been made in this volume to analyze economic and fiscal relationships among the series included" (p. 1–5).

University of Kentucky JAMES W. MARTIN

Government and the Investor. By Emanuel Stein. New York: Farrar & Rinehart, 1941. Pp. xi, 223. $1.00.

The purpose of this book is to describe and analyze the laws beginning with the Securities Act of 1933 which have greatly increased the federal control over the issuance and sale of corporate securities. The book is divided into six chapters. These chapters are concerned with the corporation and its security holders; the functioning of securities markets and their place in the economic system; the steps taken by government to bring security issues under public control, emphasizing the Securities Act of 1933; the Securities Exchange Act of 1934 which brought the securities markets within the sphere of federal control; a consideration of the holding company and of the Public Utility Holding Company Act of 1935; and with the investment company industry and the establishment of federal control. Each of the six chapters is well written, interesting, and stimulating, and each contains a wealth of information with which every investor and student of American finance should be familiar.

The author acknowledges that it is too early to evaluate with finality the New Deal acts which strictly regulate the relations of corporations to their security holders, the securities markets, the public utility holding companies, and the investment companies. He is of the opinion, however, that on the basis of the evidence available they have furthered the public interest in many significant respects and that they will endure in their main features.

Financial reform regulation of the type discussed in this book is the inevitable result of the unsavory history of abuse in American finance practices which long before 1933 had aroused a popular demand for governmental action. Dr. Stein's *Government and the Investor* should be of real value to those who conscientiously desire to understand the government's role in promoting the soundness of our financial institutions and practices. The book certainly treats a pertinent and timely topic.

Southwestern Louisiana Institute KARL E. ASHBURN

The Small Loan Problem of The Carolinas. By William Hays Simpson. Clinton, S. C., Presbyterian College Press, 1941. 148 pp. $2.00.

Dr. Simpson has set forth in clear language a refreshing and constructive analysis of the activities of the usurer and "loan shark" in North and South Carolina in 1939–1940. The analysis is the result of a realistic, painstaking survey which was begun in 1939. The book contains a foreword by John S. Bradway, director of the Legal Aid Clinic at Duke University.

The small loan problem of the Carolinas, states which have no "effective loan law," is ably and objectively treated. In addition, the reader is given a picture of the operation of small loan offices in the state of Virginia. Fortunately, the small borrowers of Virginia have the protection of an effective small loan law essentially the same as the Uniform Small Loan Law recommended by the Russell Sage Foundation.

The primary purpose of Dr. Simpson's survey is "to secure information concerning the terms on which borrowers obtained loans from . . . unregulated lending agencies." More than 2,000 borrowers, as well as many bankers, lawyers, clergymen, businessmen, social workers, city officials, and employers of labor, were interviewed. The victims of Carolina "Shylocks" were found to be numerous, some small loan borrowers having paid rates of more than 1,000 per cent per annum. It was found that in South Carolina, for example, 672 loans of $10.00 or less had been made at an average annual interest rate of 462.7 per cent. In North Carolina, 580 loans, ranging in amount from $10.01 to $25.00, were made at the average annual rate of 321.6 per cent. Negro borrowers are among the greatest sufferers.

The thoughtful reader of this book will ask why these borrowers were willing to pay such exorbitant rates of interest. Proceeds of the loans were used for the payment of all current living expenses and for such "emergencies" as sickness and death, refinancing existing indebtedness, vacations, holidays, and gifts.

A description of the organization and the operation of the small loan offices in the Carolinas includes analysis of the methods used to evade usury laws and of the methods of collection. Other sources of credit available to small borrowers of the Carolinas are described. The author points out that commercial banks, industrial banks, credit unions, pawn brokers, employer credit plans,

and life insurance plans do not adequately provide for the credit needs of the small borrowers. Consequently many resort to the unregulated loan companies for satisfaction of their credit needs.

A review of the efforts to pass regulatory legislation in the Carolinas is followed by a review of methods of control in other states and an analysis of the regulations in Virginia. The bibliographical material in the book, while not exhaustive, is helpful to those who may be inspired to do further reading on the small loan problem. The appendix includes selected cases of individual loans and a copy of the Sixth Draft of the Uniform Small Loan Laws.

Southwestern Louisiana Institute K. W. HALL

The Promise of Scientific Humanism. By Oliver L. Reiser. New York: Oskar Piest, 1940. Pp. xviii, 364. $4.00.

The subtitle of this provocative work by Professor Reiser describes it as an effort "toward a unification of scientific, religious, social and economic thought." This sufficiently indicates the magnitude of the task which the author has set for himself. Indeed, the scope of this work is such that it would take the efforts of several reviewers, each an expert in his own field, to appraise the use to which Mr. Reiser has put the findings of the many disciplines upon which he draws.

Like every thinking man today, Mr. Reiser is disturbed by the malaise which has afflicted our modern world. The cause of the trouble, says the author, is a failure of philosophy, and the remedy is a new system of thought. Human thinking has evolved from a stage which the author designates "pre-Aristotelian," in which everything is, in a certain sense, part of everything else; through the stage which we now occupy, designated as Aristotelian, in which thinking is governed by the so-called "laws of thought" systematized by Aristotle. The next stage which we must enter is a non-Aristotelian stage in which thinking must, in a way, return to the first stage in which things are looked upon as wholes and not as discrete entities. In short, we need a new logic,—nonelementalistic and multivalued.

What this means, specifically, for economic and social thinking may be given in Professor Reiser's words: "In order to make peace and security possible, fundamental changes in our political and

economic systems are necessary. A United States of the World, implemented with police power to enforce common decisions, is the ultimate goal of social advance. Global planning . . . is the next step in the utilization of our social intelligence."

These ideas are not entirely new to social scientists working only with the benefit of the old-fashioned logic of Aristotle. We may need a non-Aristotelian logic, and a non-Newtonian mechanics, and a non-Euclidian mathematics for certain purposes, but we certainly do not need a non-Smithian economics to teach us the great truth of economic interdependence. And some larger scale of world organization, even if short of a United States of the World, seems to be dictated by common sense. This would all seem tame enough if it were not for the religious implications of this position.

Professor Reiser is not satisfied with the concept of mere interdependence throughout the world. He takes a distinctly organismic view of the universe. To him "the organic kingdom is literally and in fact an organism, with the human race taking the place of the developing nervous system (the neuroblasts) of this organism." In this cosmic embryo, feeding, as Mr. Reiser puts it, upon the yolk of the world-egg, you and I and all individuals take our places as obscure cells in the cerebrum. This cosmic organism is presumably the highest good, the supreme value, the god of the humanist. It amounts to a deification of humanity. There is something in this scientific humanism vaguely reminiscent of our other "isms." In communism, the individual loses his identity in the class; in fascism he loses it in the political body of the state; in naziism he loses it in the superior race; in humanism he just loses it in everything else. All these "isms" are really religions which worship man in some form. And of all the things which man can worship, he should by all odds not worship himself. One good look at himself and his works should be enough to disabuse him of such vaunting ambitions.

Alabama Polytechnic Institute EARLE LEROY RAUBER

Hopousia, or The Sexual and Economic Foundations of a New Society. By J. D. Unwin with an introduction by Aldous Huxley. New York: Oskar Piest, 1940. Pp. 475. $4.00.

The author of the study here under review, one-time classical exhibitioner at Oriel College, Oxford, and more recently a fellow and a research scholar at Cambridge, had published (among other works) prior to his death in 1936 three works dealing with sex and culture and with the relation of sexual regulations to human and cultural behavior. The present work had not been completed at the time of the author's death; it was prepared for publication by Mr. Y. J. Lubbock.

Hopousia is a hypothetical society so organized sexually and economically as, in the opinion of the author, to make for a maximum display of productive energy. In the present study the author develops his central thesis (see below) and, in the light of this thesis, examines a variety of political, economic, and social items such as currency, money, exchange, banking, capitalism, motivation, types of economic systems, the role of cities, population questions, etc. While economists will probably take exception to Unwin's handling of many of these economic items, they will none the less find the discussion penetrating and informative; for the author makes clear explicitly and implicitly that one cannot sequester economic processes and events and at the same time arrive at a complete picture of society in its economic aspects.

Unwin accepts the Freudian proposition that civilization flows from the imposition of restraints upon the sexual impulse. Accordingly, the amount of sexual restraint which any class of society imposes regulates the amount of energy displayed by that class and the kind of civilization created by it. The up and down movements in history of societies, and more particularly of classes within societies, are due to the fact that such a group rises culturally and politically in consequence of the imposition of sexual restraints, only to tire of these restraints, relax them, and suffer a loss of energy and position. A society can go on displaying maximum energy for an indefinite period provided: (a) a good deal of sexual restraint is made indefinitely acceptable to at least the ruling classes of a society; (b) the economic system promotes rather than interferes with the display of energy. In a society organized along the lines of *Hopousia* these two conditions are, Unwin believes, approximated.

In view of the fact that Western civilization now appears to be

undergoing a transformation rivaling that whereby the feudal economy was converted into the modern industrial system, and that this transformation may be steered in one of several directions, Unwin's study deserves careful reading. Aldous Huxley, in his critical introduction, states that Unwin's contributions will take "a very important place" in any plan to overcome the "evil and stupidity" which have brought defeat to civilized men "for the best part of a generation."

Duke University J. J. Spengler

Social Science Principles in the Light of Scientific Method: With Particular Application to Modern Economic Thought. By Joseph Mayer. Durham, N. C.: Duke University Press, 1941. Pp. xxii, 573. $4.00.

This book is one of the most important contributions to social science methods and to economic criticism ever to be published in this country. Indeed, it is probably the most devastating criticism of classical economic theory ever to be put between covers. It handles respectable economic doctrine far more harshly and fatally than did Thorstein Veblen. Professor Mayer has a better grip upon scientific and social science method than had Veblen, his thought is sharper and clearer, and his criticisms better documented. Only by a conspiracy of silence in regard to the book can conventional economists hide what should be their shame and guilt.

This volume is a critical examination of classical economic doctrine in the light of modern scientific procedure and the concepts and techniques of social science. The author thus summarizes his goal and purpose, in indicating just why he wrote the book:

> To clear the atmosphere of medieval dialectic in social and economic theorizing. To apply scientific procedure in social science as it has been applied in physics and biology. To outline what modern sociology and psychology have to offer as a basis for a realistic theory of value. To trace the general development of the market and price system in the light of recent advances in anthropology and sociology. To focus attention upon important basic concepts for understanding contemporary society. To offer several case studies to test the virtue of the author's approach to pressing social problems. The need for such a book is evidenced in the

many conflicting points of view at the present time. No convincing solution for current economic and social problems seems thus far to have been formulated.

The first part of Professor Mayer's treatise is devoted to a careful exposition of scientific method as applied to the social sciences. He then proceeds to apply this method to the fundamental tenets of classical economic doctrine, or, as it has been called, "pecuniary logic". He turns his heavy guns particularly upon the marginal utility theory. He concludes that this doctrine has no validity, when applied to an explanation of cost or price determination;

> Combining these criticisms of the chief contentions of utility proponents with the preceding criticisms of cost theory, we may conclude that there appears to be little in this classical and neoclassical structure of dialectic which is not pseudoscientific, fallacious, or inadequate to an understanding of modern economic phenomena.

Pursuing his examination further, Professor Mayer finds that the classical theory of value and its elaboration in the marginal utility theories of Clark and others, together with other aspects of neoclassicism, wither away in the face of scientific scrutiny. The doctrine has next to no value as a description or explanation of modern economic life. It has provided us with a sort of fantasy or dream world in which, for over a century, students of economics have been able to escape from reality:

> It is one of the contentions of the present volume, which, it is ventured, has by this time been fairly well substantiated, that this "older economics" possesses "integrity" and is "logical" only on the score of pseudoscientific assumptions and fallacious preconceptions, that for the most part it bears no resemblance at all to the facts of modern economic life, and that its very availability and pedagogical compactness are a snare rather than a help in the training of future economists, except possibly by way of an object lesson in fallacious dialectic. Should this appraisal be correct, even though certain historical achievements in economic value analysis may be retained in their proper setting and some of them utilized in the projection of more adequate hypotheses, the classical structure as such, together with its neoclassical refinements, must, we submit, be discarded in its entirety if a truly scientific approach to the problems of modern economic society is to be achieved.

Professor Mayer looks into other fields of economics, such as the value problem, business cycles, the income of the American people, economic institutions, and Keynes's notions regarding "Full Employment and Easy Money". His results in these fields are equally suggestive and devastating. While he points out the exaggerations and inconsistencies in Keynes's theories, he concedes that Keynes has raised the very devil with the old economics and that the storm which has gathered about him may serve to destroy the old classicism, once and for all:

> Whether Keynes or his critics get the better of the argument over full employment and easy money is not so important at present as is Keynes's realistic stirring-up of the classical broth. Many of his critics are stewing in the same scholastic mixture. The major difference seems to lie in Keynes's realistic approach. Outstanding among contemporary economists, firm in his purpose to provide a better analysis of pressing problems in forthright terms, Keynes is rendering real service in forcing a broad reconsideration of classical assumptions. Just a while longer and it may well be that the long-simmering classical pot will be overturned and the contents finally spilled, never to be used again.

If this book does not produce a revolution in the writing and teaching of economics, then indeed the economists of the country are hopeless. One may hazard a guess, however, that Professor Mayer will not be invited to any leading chair of economics in one of our major universities.

Cooperstown, N. Y. HARRY ELMER BARNES

Social and Economic Aspects of Swedish Population Movements, 1750–1933. By Dorothy Swaine Thomas. New York: Macmillan Co., 1941. Pp. xxiii, 487. $6.00.

This volume is the first in a series dealing with the interrelationships between social and economic factors and the development of the population of Sweden. One of the remaining two volumes will deal with local differences in demographic developments, and the other with certain aspects of demographic selection. Sweden is of interest to students of population for several reasons. First, eighteenth and early nineteenth century demographic data are more complete in Sweden than in non-Scandinavian countries. Second, in recent years more detailed inquiries have been made into

demographic movements in Sweden than elsewhere. Third, up to the outbreak of the war, of the countries (other than Scandinavian) concerned over the threat of depopulation only Sweden proposed to meet the situation in a way consistent with the values and methods of democracy. Fourth, detailed accounts of what has taken place in Sweden serve to increase our understanding of movements in countries in respect of which our information is more limited.

Dr. Thomas' study is divided into two parts. Part I deals with population movements (e.g., death, birth, fertility, and marriage rates; urbanisation and rural-urban migration; changes in age, marital, and civil composition of the population); with changes in agriculture and in agricultural holdings, and class structure, and with the relation of these changes to rural population movements; and with industrialization and its effects upon population movements and composition. In Part II the author presents a special analysis by types of communities for the period 1895–1933 of population trends and structure, migration, natality, mortality, and demographic effects of business cycles. The book includes 92 tables and 70 charts, an index, and appendices dealing with the basic materials and with the methods of determining trends. It is a book, therefore, that will prove of immense interest to economists, sociologists, and economic historians.

This study not only reveals many general relationships between demographic and nondemographic variables, and substantiates the view that analysis of population movements through time compels one to treat each variable as both dependent and independent. It also exemplifies the usefulness of the Swedish system of population accounting (which partly originated in the seventeenth century), and indicates the importance for population analysis of long series of data on the state of the national and the local economy.

Duke University J. J. SPENGLER

Human Nature and the Social Order. By E. L. Thorndike. New York: Macmillan Co., 1940. Pp. xx, 1019. $4.00.

Under the impact of the individualistic psychology of the late 18th century and the early 19th century economics became, at the

hands of some economists, more of a psychological than a social science. Emphasis, moreover, was placed upon the individual aspects of human behaviour. This emphasis has persisted despite the protests of the institutionalists, the historical economists, and others; it underlies much of current welfare and equilibrium theory, and is responsible in some measure for the fact that economic policy often falls short of accomplishing what it might achieve were it better grounded.

The book under review "presents certain facts and principles of psychology which students of sociology, economics, government, law, and other sciences of human affairs ought to know"; it is designed to show how psychology is related to welfare and how application of the principles of psychology can augment the welfare-creating effects of economics and other social sciences. While the emphasis is upon the individualistic aspects of human behavior, collective aspects are not ignored; it should serve, therefore, to dissipate some of the incorrect presuppositions upon which economic analysis frequently is based.

The work is divided into two parts, the first of which deals with general facts and principles of behavior, and the second with special facts, principles, and applications. Many of the chapters are devoted to subjects of importance in economics: e.g., wants and their formation and satisfaction; valuation; philanthropy; welfare; capital; consumption; money and credit; wage payments; economic reform; business ethics, etc. Although economists will take exception to some of the purely economic analyses and conclusions developed by the author, they will find the work informative, stimulating, and suggestive. A fairly detailed index and a detailed table of contents add to the usefulness of the work.

Duke University J. J. Spengler

The Output of Manufacturing Industries, 1899–1937. By Solomon Fabricant, with the assistance of Julius Shiskin. New York: National Bureau of Economic Research, 1940. Pp. xxiii, 685. $5.00.

This is a survey, both detailed and comprehensive, of the output of American manufacturing industries during the period 1899–1937; it includes 66 text tables and charts besides the 200 pages of

statistical materials in the appendices. The work consists of two parts. In Part One the changing aspects of manufacturing production are examined in the broad. The main changes in relative importance, composition, and output in manufactures are summarized. The material and methods available for measuring these movements are appraised. Trends in the output of major groups of manufacturing industries and of individual manufacturing industries are disclosed. Some analysis is made of factors influencing individual manufacturing industry trends. In Part Two changes in the output of 16 individual manufacturing industries (e.g., leather products, machinery, foods) and a miscellaneous group are traced. Four appendices follow. These include notes on technical aspects of data and methods, the basic data whereon the study is based, and a comparison of the indices in this study with indices developed by other agencies.

This study will prove extremely useful to both economic historians and students interested in the changing industrial structure of the American economy. The period under survey witnessed an average annual increase in output of 3.5 per cent; it saw remarkable changes in the composition of American manufacturing output, and in the relative importance of various branches of manufacturing; it experienced important qualitative changes; it ended in sustained depression.

At present two threats confront the American economy. If it survives the external threat it still must face the internal threat of "stagnation." Whence it seems to the reviewer that funds might well be set aside by one of the foundations for the purpose of ascertaining the causes, if there be such, of this alleged stagnation.

Duke University J. J. SPENGLER

Production And Distribution Theories. By George J. Stigler. New York: Macmillan Co., 1941. Pp. vii, 392. $3.25.

This work "is a critical study of the theories of distribution which rose out of the theory of subjective value, and which were finally systematized into the general marginal productivity theory." The period covered is roughly 1870 to 1895. Chapters are devoted to Jevons, Wicksteed, Marshall, Edgeworth, Menger, Von

Wieser, Böhm-Bawerk, Leon Walras, Knut Wicksell, and J. B. Clark. A closing chapter on Euler's theorem and the marginal productivity theory touches on the contributions of (besides the writers already mentioned) A. Berry, Flux, Chapman, Pareto, Barone, and Montemartini; it indicates that much of the relevant controversy originated in differences in the implicit assumptions of the participants.

Professor Stigler does not concern himself with either the social philosophy or the whole body of thought of each of the economists treated. The study is limited to production and distribution theory in stationary, competitive economies; it attempts to discover and evaluate all important errors in the formal reasoning of the writers, with "neo-classical" economics serving as the standard of reference.

This study is well done, informative, and interesting; it will prove useful to historians of neo-classical theory; it will provide graduate students with a concise, critical account of the work of the writers covered, lack of which in the past has often proved almost irreparable. It is to be hoped that it will be read widely.

Duke University J. J. SPENGLER

Technology and Society. By S. McKee Rosen and Laura F. Rosen. New York: Macmillan Co., 1941. Pp. 474. $5.00.

When in 1937 the late Lord Stamp in *The Science of Social Adjustment* lamented the fact that in our scheme of things "the crucial impact" of science and technology on society was "nobody's business," he voiced a sentiment widely shared by thoughtful students of the contemporary scene. The authors of this book are doing their share to make "this crucial impact" somebody's business or, if possible, everybody's business. This volume is written not only for freshman orientation courses but also for the use of citizens in general.

The book is divided into four parts of five chapters each. Part I described "The Technologic Base" and touches on manufacture, transportation, and communication, agriculture, construction, and science in the professions. (This last chapter is confined almost exclusively to medical experience.) Parts II, III, IV discuss the economic, social, and political effects, respectively, of the impact

of technology on modern society. In an introductory chapter, William F. Ogburn briefly summarizes the chapters which he contributed to the volume on Technological Trends and National Policies of the National Resources Committee. A concluding chapter is entitled "Technology and the New Society."

This book is based largely, in parts even exclusively, on government publications, especially on publications released by the National Resources Committee and the National Research Project of the W.P.A. While such one-sided reliance on a restricted segment of source materials implies certain limitations of the treatment of the subject, nevertheless, the authors deserve much credit for having made available to the general public some of the important findings of government research which otherwise would remain buried in thousands of pages of unread documents. Such a popularization of technical material is of vital importance, especially in democratic countries.

The economist who wishes to appraise this volume, to be fair to the authors, must constantly keep in mind that this is a sociological study. It is evident that the authors are more conversant with political science and sociology than with economics. There can be no question that had the book been written by economists, the distribution of emphasis would have been quite different. In particular, Parts I and II dealing with "The Technical Base" and with "Economic Effects" would have been greatly expanded. Thus, for instance, in Part I special chapters on the technology of power generation and the production of nonagricultural raw materials unquestionably would have been incorporated. In Part II a chapter discussing the impact of technology on the consumer would have been made the *pièce de resistance*. (Chapter XIV dealing with "The Comforts of Life" could hardly be considered an adequate substitute for a chapter on technology and consumers.)

While the book as a whole is written in easy style, many students will stumble over technical terms used without any explanation of their meaning. It would be interesting to ascertain how many students—and teachers for that matter—know the meaning of "duplexing cupola iron" (caption under illustration on p. 40) or of "cracking and hydrogenation of petroleum" (p. 60). Moreover, the one-sided emphasis on mechanical aspects of technology,

which incidentally is implied in the subtitle, results in a regrettable underemphasis of other, perhaps equally important, aspects of technology such as science in general and chemistry in particular. Finally, the admitted omission of all international implications of the technological impact on society leaves the student with an incomplete understanding of the theme discussed.

Yet, in spite of its shortcomings, the book is a decidedly worthwhile and most welcome addition to a rapidly growing literature which at last is helping the public to realize that technology is not just a bunch of gadgets but a powerful social force for good or evil.

University of North Carolina ERICH W. ZIMMERMANN

Men, Groups, and the Community: a survey in the Social Sciences. By Thomas H. Robinson and Others. New York: Harper & Brothers, 1940. Pp. xix, 965. $3.50.

Courses designed to give the student some appreciation of the social sciences as an interrelated and interacting body of knowledge are so recent in their origins that very few books of value have been published to serve as a basis for instruction. The appearance of *Men, Groups, and the Community* is a welcome sign that the social science survey course is enjoying a vigorous development.

The present text, organized around the belief that "life is a unit," represents the experience and work of eleven men of the School of Social Sciences of Colgate University. The fundamental problem with which the authors are concerned is the age old problem of the uniqueness of personality and the commonness of social experience. That problem they limit to present-day American society, and with considerable skill develop a treatment that includes not only the characteristics of our social milieu but captures as well the changes in social values and structures that have given us such an unenviable heritage of social maladjustments.

The editorial work on the book was exceptionally good, and the student will find that the clear, vigorous language, the pointed illustrations, and the numberous pictoral devices unfold an intelligible and integrated, though formidable, account of the position of the social man in the multiplicity of life. It is also a matter for congratulation that the authors have not been exces-

sively concerned—as is so often the case—with the data of social pathology, but have given the bulk of their attention to the normal expressions of organized social existence.

The disciplines of economics, political science, sociology, and education contribute—perhaps in that order—to the material presented. History, when used, is employed as a method, for the main purpose of the text is definition, description, and analysis of functioning institutions. In the economic sections not only are the fundamental characteristics of the economic process depicted but the individual is portrayed in his twin role of producer and consumer. Throughout the book emphasis is upon practice rather than theory though it must be admitted that the student receives ample exposure to both the fundamental concepts and the all too esoteric vocabularies of the social sciences. Perhaps the true quality of the book can best be expressed by the statement that though it was intended for a text it could be read with some pleasure and considerable profit, even on a noncompulsory basis, by those who are concerned with the broad sweep of the social science studies.

Instructors in search of a prospective text, however, should be advised that the book is too long to be covered completely in the time usually allotted to a survey course, and though it contains an excellent social treatment of the United States as a going concern it does not have any serious consideration for the fact that in large measure our domestic problems are in reality world problems.

University of North Carolina JAMES L. GODFREY

The Wheat Economy. By G. E. Britnell. Toronto, Canada: University of Toronto Press, 1939. Pp. xvi, 259. $2.50.

Canadian Marketing Problems. Edited by H. R. Kemp. Toronto, Canada: University of Toronto Press, 1939. Pp. vii, 152. $2.50.

The essays on marketing edited by Professor Kemp are based upon material presented in a series of lectures given at the University of Toronto under the joint auspices of the Department of Political Economy (course in Commerce and Finance), the Department of University Extension, and the Advertising and Sales Club of Toronto, and the present volume is the third to be issued

in the Political Economy Series commenced in 1938. The lectures were given by Canadian university professors, business experts, and one government official. With the exception of the first essay on the Commercial Policy of Canada, this volume is devoted to purely commercial phases of the Canadian economy such as salesmanship, advertising, market surveys, etc. It marks a fuller curricular recognition of these subjects at Canadian universities.

The volume of *The Wheat Economy*, though likewise confined to Canada and more particularly to Saskatchewan, is of an entirely different nature. It is a socio-economic study in the broad meaning of the words. In its implications, moreover, this study reaches far beyond the boundaries of a single commonwealth.

Its central theme is nothing less than the fate of a one-crop economy in a world which seems to stray further and further from the path of free trade and interregional specialization, and which appears to become ever more deeply engulfed in the cross currents of economic nationalism and the maelstrom of power politics. Beyond that, it raises grave questions of the practical limits of social control necessitated by a breakdown of private capitalism and that in a field which only a few decades ago lay bathed in the sunshine of radiant hope.

To some extent, the distress and jeopardy in which the prairie provinces of western Canada in general and Saskatchewan in particular find themselves are traceable to the amazing speed with which the transition was made from "rude, pioneer levels" to an enviable height of economic and social progress. As in other new settlements this rapid progress was bought at the price of impaired natural resources and at the risk which inevitably accompanies extreme regional specialization. The sales value of farm products actually sold off farms in Saskatchewan which had reached a height of $334,000,000 in 1925 stood at $51,000,000 in 1937!

The first four chapters give a lucid description of the wheat economy of western Canada, especially of Saskatchewan, its geographical background, the distribution of population, the transportation and distribution system, etc. Chapters 4, 5, and 6 deal with the financial and institutional superstructure. They are the heart of this excellent study. The last chapter discusses the

ways and chances of rehabilitation. It appears that Nature does and that "Culture" may put great, if not unsurmountable obstacles in its way.

University of North Carolina ERICH W. ZIMMERMANN

The Agricultural Industries. By D. W. Malott and B. F. Martin. New York: McGraw-Hill Book Co., 1939. Pp. 483. $3.00.

This book is designed "to present the business aspects of purchasing, processing, financing, and marketing the chief agricultural raw materials entering into American industry and commerce, and to analyze the business problems peculiar to these industries." Furthermore, "it is the aim of the writers to present in brief compass the historical development, statistical position, technical processes, handling methods, and relations to government necessary to an analysis and understanding of the problems faced by the executives in these industries."

In the preparation of this volume the authors, who until recently had charge of a course on the agricultural industries at the Graduate School of Business Administration, Harvard University, were able to draw not only on published data but also on more than 150 actual business problems collected by them at first hand from these industries.

The industries covered are: the dairy industry, the livestock and meat-packing industries, the cotton and cotton-textile industry, the grain trade, the sugar industries, the tobacco industry, and the wool, woolen, and worsted industry. Some generalizations are presented in the brief introductory and concluding chapters.

Within the limits, carefully drawn and strictly adhered to, the authors have performed an unusually competent piece of work. The book not only offers a wealth of significant information, some of it not easily found elsewhere, but also abounds in valuable analysis and interpretation. This reviewer knows of no other volume that covers this important field in similarly succinct and adequate fashion. It should prove indispensable to specialists in the field and highly useful to economists and business executives in general. The carefully selected bibliography is not the least useful part of the book.

University of North Carolina ERICH W. ZIMMERMANN

Studies in War Economics. Montreal, Canada: International Labour Office, 1941. Pp. 199. $1.00.

The books on war economics evoked by the last war appeared for the most part in the early years of the subsequent peace, and took the form of a post-mortem. The war now in progress is bringing forth its economic treatises earlier, and they are aimed at exerting an influence on the war effort and on the distribution of income and wealth during and after the conflict. This volume consists of six separate essays, four of which have already appeared in some form in the *International Labour Review*.

The first essay, by E. F. Penrose, is a brief summary of the general principles of war economics, apparently designed to popularize the subject. For economists, its principal interest will be as a statement of left-wing labor ideas as to war economics. Penrose admits that the length of the work week will have to be increased, and that consumption will have to be decreased, "even of fairly low income groups." He thinks that, "the case against inflationary finance is overwhelming," and favors paying for the war by income taxes, supplemented by lending, preferably compulsory. He advocates government guarantee of a minimum family income, payable in money or in kind. He recognizes that this is a big job for a country to start while it is fighting a great war, but reflects comfortably that, "there are opportunities in a period of war or preparation for war to take strong measures with a minimum of delay and to use methods which up to now have not been practicable in peace-time."

The second and third papers are contributed by E. J. Riches. One of these is an analysis and critique of the Keynes plan. It is interesting and adequate but adds nothing new to that controversial subject. The other is a valuable summary of the literature on wartime wages. Riches shows that the margins for skill tend to decline in war, comments on the great variations in the fluctuation of wages by industries, and brings out some of the wage problems resulting from the induction of women into war industries—problems which he considers not so grave in this war as in the last. The material on wage control comes down to the summer of 1940.

The essay on "Control of Food Prices" by A. S. J. Baster is a sound and convenient summary. C. M. Wright's discussion of

housing policy relates chiefly to the present war. It brings the subject down almost to the end of 1940, and is a real contribution.

To this reviewer, the most interesting paper is the final one. It is by Edith Tilton Denhardt, and is a discussion of the effects of the last war and of the present one on the textile industry. The old war, the author asserts, aided the growth of the cotton industry in India and Japan, at the expense of England. It stimulated the rise of cotton manufacturing in most of the nonindustrial countries of the world, and spread the culture of cotton also. Germany, she states, supplied at home 32.4 per cent of her total demand for fibers of all kinds in 1938. She advances convincing reasons to anticipate that this war will result in hurrying up the substitution of artificial fibers for natural fibers. The current textile situation all over the world is treated in brief.

University of Alabama LEE BIDGOOD

The Business Corporation: Its Financial Organization and Operation. By E. S. Mead and Others. New York: Appleton-Century Co., 1941. Pp. 680. $4.00.

Since it was first published in 1910 E. S. Mead's *Corporation Finance* has been one of the important texts in its field. As stated by the authors in the Preface, the original (1910) plan has been adhered to in the development of this eighth revision.

> This plan followed the line of the corporate life cycle from birth, through growth to maturity, to decay and death. To carry the analogy further, our treatment may be likened to a discussion of the anatomy, physiology and pathology of the corporation, treating it as a living organism composed of human beings, and following in its life cycle the phases of human existence.

The authors recognize that the corporation offers advantages superior to any other form of business organization since it has proved to be the most serviceable device for the conduct of business enterprise. The attainment of a continuing profitable existence is the yardstick by which each corporate objective is measured.

The authors seek to emphasize the changes in corporate structure, practice and regulation which the last ten years have introduced. Furthermore, emphasis is given to the place, scope and

dangers of corporate borrowing and the general reduction in recent years of the use of this form of financing by many of the largest and most successful companies. Five chapters are devoted to deficit financing, insolvency and reorganizations.

The book is well written and hence is easy to read. Its excellent organization is a distinct asset. Much can be said also for the selection of illustrative data and the manner in which this is made an integral part of the discussion. The limitation of the analysis of the Massachusetts Trust to thirteen lines is indicative of the excellent evaluation of the importance of subject matter.

On the other hand, one looks in vain for an adequate evaluation of "recent control measures which aim to protect the investor and so to increase the usefulness of the corporate device." There is a timidity with regard to a critical evaluation of these New Deal measures that is increasingly obvious as the book progresses. Thus on page 267 it is stated with regard to the volume of worthless securities: "Still another estimate is that presented in a *New York Times* dispatch dated March 31, 1933, from Washington, D. C., to the effect that, of $50,000,000,000 in securities floated in this country from 1920 to 1933, inclusive, half had proved to be worthless or undesirable." Certainly the student would like to know more about the source of such data emanating "from Washington, D. C." Otherwise a generalization such as this may impress one as a citation of New Deal propaganda with approval. Surely the authors have accurate data of their own that would make resort to 1933 propaganda in 1941 unnecessary.

Equally unsatisfactory is the evaluation on page 276 of the Securities Act and the Securities and Exchange Act as being "like preventive medicine" . . . "intended to eliminate, if possible, many of the gross abuses which have developed in the marketing of corporate security issues and are often held to be fraudulent."

The tax on undistributed profits provided for in the Revenue Act of 1936 is given only a few lines on page 405 and is dismissed on page 445 with the brief statement that "the Revenue Act of 1939 omitted the tax on undistributed profits." Certainly a more detailed, critical evaluation of this New Deal tax was called for.

The reference on page 528 to "abuses so common in a laissez-faire economy" seems to reflect the influence and acceptance of

New Deal blanket pronouncements against laissez faire as though such did exist in fact prior to 1933.

The implied approval of methods of "an aroused and enraged public opinion" to "bring about strenuous correctives" (page 535) is also to the point.

A mere description of recent control measures is hardly an adequate way to recognize the importance of the corporate regulation to which business has been subjected during the past decade. The philosophy and objectives of the regulation call for careful, detailed, and unbiased scrutiny if a text of this nature is to be of maximum value to the student.

The text contains little or no discussion of three important forms of finance which are used extensively, viz., stock purchase warrants, options to buy stock, and privilege subscriptions.

In addition to unbalanced chapters which make uniform assignments difficult, the very limited use of charts and tables and of footnotes deserves critical comment.

Vanderbilt University Roy L. Garis

The Reciprocal Trade Agreements Program. By Grace Beckett. New York: Columbia University Press, 1941. Pp. xv, 142. $2.00.

With the exception of the final chapter, pages 75–112, which presents an analysis of the effects of the reciprocal trade agreements program on the foreign trade of the United States, Miss Beckett's book is mainly a descriptive treatment of the legislative history and administration of the Trade Agreements Act of 1934 and a survey of provisions and concessions included in the agreements. The descriptive exposition, although stylistically colorless, is technically admirable, and covers quite adequately the important information as to the structure and scope of the program.

The chapter devoted to analysis of the effects of the agreements demonstrates how greatly the defense of this controversial public policy, in the light of its accomplishments, depends upon presumptions which are difficult, and in some cases, impossible, to fortify with concrete evidence. It should be noted that this applies equally to protectionist allegations of injurious effects of the agreement concessions upon domestic industry. The reviewer has no fault to find with the inferences which the author draws

from the statistical evidence. That the program did not cause any spectacular changes in trade but that, nevertheless, the United States enjoyed a larger volume of foreign commerce than would otherwise have occurred if there had been no trade agreement program seem to be indisputable conclusions. Furthermore, emphasis is quite properly placed upon the direct and indirect influence of the program in discouraging foreign nations from increasing their barriers and discriminations against United States exports.

New York University HORACE G. WHITE, JR.

Occupational Trends in the United States. By H. Dewey Anderson and Percy E. Davidson. Stanford University: Stanford University Press, 1940. Pp. x, 618. $6.50.

Drs. Anderson and Davidson have taken the decennial *Census of Occupations*, together with whatever other material was available, and presented in this volume a detailed picture of occupational trends in the United States. The volume includes no data from the 1940 census, of course, but the purchase price includes a supplement which has been promised in 1942 which will bring the data presented up to 1940. It is to be hoped that the authors will see fit to include in the supplement some of the data now being compiled for national defense purposes.

The principal purpose of the study is to assist in the work of vocational guidance and vocational education, presumably by indicating which occupations have been growing in importance, and in all likelihood will continue to grow, so that they may offer opportunities for remunerative employment in the future. The reviewer suspects that in a society changing so rapidly as ours, the projection of occupational trends would be a dangerous basis for offering vocational advice. One of the essential bases for that advice, a prediction of changing occupational demands, is not provided, and in all likelihood, cannot be provided. However, this study does provide those engaged in guidance with more accurate information than they have had in the past.

Aside from this purpose, the study provides a wealth of material for other purposes. As the authors say: "To the social scientist, a study of employment trends reveals much valuable information. The numerical distribution of workers at regularly spaced periods

of time permits of comparisons which picture the effect of social and economic changes. Combined with the related descriptive material from industrial history such numerical data take on new significance" (pp. 1–2). Drs. Anderson and Davidson have compiled and analyzed as accurately and as completely as their raw material would permit, a wealth of data which will undoubtedly be of assistance in social studies of the changing structure of the American economy. Each of the major occupational classifications and most of the sub-classifications are treated in detail. Startlingly clear pictures of trend and movement are presented. The economist or sociologist now has the data to do with as he will.

If the supplement measures up to the high standard of scholarship and research that the body of the work does, we will have an invaluable addition to our body of knowledge about present American social and economic institutions, and their changing character in the past.

University of North Carolina FREDERIC MEYERS

Gift Taxation in the United States. By C. Lowell Harriss. Washington, D. C.: American Council on Public Affairs, 1940. Pp. vi, 175. Cloth, $3.00; paper, $2.50.

Stock Transfer Taxes. Committee for the Study of Federal and State Stock Transfer Taxes. New York: 1940. Pp. xi, 155.

In his study of gift taxes, Dr. Harriss properly regards these taxes as a necessary auxiliary or buttress to death and income taxes. He addresses himself to certain leading questions, such as considerations giving rise to federal and state gift taxes, statutes and court decisions, administrative problems and policies, techniques for the minimization or avoidance of these taxes, fiscal (and to some extent other) results, and proposals for change. The author explicitly disclaims any attempt to say the last word, but he raises many pertinent questions, with their practical and theoretical implications. His study appears to be careful and unbiased, and is of value to all those interested in this not unimportant piece of our complicated tax mosaic.

The study of stock transfer taxes, sponsored by a New York

firm of odd-lot dealers, treats of a type of taxation which is of minor fiscal importance, but the effects of which are of peculiar significance to certain sectors of our economy. After presenting much factual information relative to such taxation in several foreign countries and in the United States, the committee proceeds to argue quite frankly that stock transfer taxes in this country should be levied on a narrower base, that federal and state taxes should be coordinated to eliminate differential rates between different markets, that rates should be more nearly proportional (ad valorem instead of specific), and that taxes on sales effected through organized exchanges should be collected without the bothersome use of revenue stamps. Some conclusions of the report are highly questionable, e.g., those based on the assumption that stock transfer taxes are inequitable unless proportional. Also some significant implications are not examined.

University of North Carolina A. G. Griffin

The Federal Role in Unemployment Compensation Administration. By Raymond C. Atkinson. Washington, D. C.: Committee on Social Security, Social Science Research Council, 1941. Pp. x, 192. $2.00.

This volume, which is based on a study begun in 1936 and terminated in 1940, is a distinct contribution to the limited but growing amount of literature on unemployment compensation in this country. This evaluation is justified, even though one may not agree either with the suggestions which Mr. Atkinson makes for improving administration or with the conclusions which he reaches in the more controversial areas of unemployment compensation.

The descriptive portions of the study provide an excellent picture of both the manner in which the federal-state system of unemployment compensation actually operates, and the evolution and statutory basis of existing practices. Here for the first time is a detailed description of the way in which the Social Security Board, the federal agency most concerned, functions in meeting what it considers its responsibilities in connection with the unemployment compensation program—budget and grant procedure, the development and imposition of federal standards of administration, and the provision of research and technical service.

The descriptive portions of the volume might have been improved by a fuller discussion of the organization and functions of the Interstate Conference of Employment Security Agencies.

Of greater significance than the descriptive portions of the study is Mr. Atkinson's analysis of administrative problems and the benefit structure. He makes a number of suggestions for improving administration, some of which could be applied without substantially altering the existing framework of the federal-state system. However, most of the suggestions, if followed, would produce what Mr. Atkinson thinks is most desirable—a national system of unemployment compensation. Even the major suggestions for improving the federal-state system would produce, in effect, a national system, because a multiplicity of federal administrative standards, plus contributions and benefit standards and reinsurance, would leave little room for state action. Mr. Atkinson would prefer complete federalization to the cumbersome machine that would likely result if his suggestions for improving the federal-state system were taken. He feels that the weight of all considerations, administrative, economic, and social, is in favor of nationalization.

Space does not permit a consideration of the analysis upon which Mr. Atkinson bases his conclusions. It should be pointed out, however, that there are those who believe: (with Mr. Atkinson) that the federal-state system "—has been and is being operated with reasonable success in most areas—"; that the administrative argument for nationalization has not been conclusively demonstrated as yet; and that unemployment compensation is an area in which state action merits a fairer test than any that might be given in the short period of five or six years.

Employment Service Division W. R. Curtis
Unemployment Compensation Commission of North Carolina

Union Policies and Industrial Management. By Sumner H. Slichter. Washington, D. C.; Brookings Institution, 1941. Pp. xiv, 597. $3.50.

"The most important economic problem of the country during the next generation is likely to be that of stimulating the expansion of production and employment." With collective bargaining now a matter of public policy the system of "industrial jurispru-

dence" that is being developed by union labor and management occupies a key position. It is with the more recent evolution of this system, and particularly with the progress of union-management cooperation, that the author deals, rather than with the whole field of industrial management.

Though not apparently separated into divisions, the book consists of two main parts, a review of recent union problems and policies, and an account of experiments in union-management cooperation. The development of each and transition from one to the other is both historical and rational, with the shift from the discussion of traditional unionism to cooperative experiments following naturally. Two concluding chapters supplement the research findings with an economic analysis of union-management cooperation and an evaluation of the entire study, respectively.

The evolution of union policies concerning apprenticeship, hiring, layoffs, make-work, technological change, wage payment systems, cost differentials and competition between union and non-union shops is examined historically and statistically. This section occupies two-thirds of the book. It serves as the background for the discussion of experiments in union-management cooperation. Several concrete cases of recent cooperative ventures on the railroads are described, as are the experiences of the Cleveland women's garment industry, the Amalgamated Clothing Workers, and the Naumkeag Steam Cotton Company.

In the reviewer's opinion, sections of the book dealing with the effects on union policies of the depression and of competition between union and non-union shops are especially good. The analysis of the relative elasticities of demand for labor under different conditions and its application to union policies is a real contribution. The author finds that union leaders are often hampered in their efforts to follow more enlightened, cooperative, and long-range policies by suspicion, lack of understanding, and emphasis on immediate results by the rank and file of union members. He also notes that management could frequently follow more enlightened price policies, which would assist materially in rendering labor cooperation in cost reduction more effective.

Treatment of the topics discussed is thorough, scholarly, and apparently unbiased in all but one possible respect. This is the

author's leaning toward approval of union-management cooperation. In spite of the discouraging progress made to date in this area of industrial jurisprudence, he supports the thesis that it will prove to be a permanent and useful part of at least a limited segment of industrial relations in the future. Though possibly not quite as optimistic on this point as the author, the reviewer is inclined to agree with the main thesis. Especially for the high-cost employer, union-management cooperation does appear to have many possible advantages.

University of Arkansas PEARCE C. KELLEY

Dismissal Compensation. By Everett D. Hawkins. Princeton, N. J.: Princeton University Press, 1940. Pp. xvii, 390. $4.00.

This book represents the first published volume in the field of dismissal compensation. It is, as the author states in the preface, an effort to bring together and consider in one unified study all the various company, trade union, and legislative plans for dismissal compensation which have heretofore been discussed only in scattered articles, reports, and periodicals.

The main body of the book is divided into three parts. Part I deals with company plans in the United States, and consists of chapters on the growth of dismissal compensation, compensation provisions, administrative problems and results, limitations, and trends. Part II discusses other voluntary plans, including those evolved by trade unions in the United States, and the voluntary plans in use in foreign countries. And Part III is devoted to compulsory plans; here the author considers various types of legislation passed in the United States and in foreign countries.

The book, for all its comprehensiveness, is not without certain weaknesses. First of all, the discussion of the voluntary and compulsory plans operating in other countries might have been more fully presented. The author has contented himself with stating the distinguishing features of the foreign laws and naming those countries whose legislation includes such features; he has omitted helpful elaborations on these laws.

There is no mention made of the settlement of disputes incident to the administration of dismissal compensation plans in foreign countries, while much space is devoted to consideration of other

types of insurance and policies—not all of which seems necessary or pertinent information.

The author makes an observation which the reviewer is unable to accept: "Dismissal compensation pays for the mistakes of personnel management and helps raise the level of efficiency of the force" (p. 26). The underlying philosophy of dismissal compensation implies that it be used as a positive personnel technique. To employ it as an excuse for making a labor audit not only indicates the lack of adequate personnel management, but nullifies the very purpose of the technique.

In general, the book fulfills the purpose for which it was intended. The author has a clear picture of the problems of dismissal compensation. His forecast of the value of dismissal compensation in the years which will follow the present world war should be read by every employer.

Employment Service Division, JOHN B. HACKETT
Unemployment Compensation Commission of North Carolina

Administrative Decentralization: A Study of the Chicago Field Offices of the United States Department of Agriculture. By David Bicknell Truman. Chicago: University of Chicago Press, 1940. Pp. xvii, 211. $2.50.

There are three remedies for the present concentration of authority and administration at Washington. Two of these are familiar: the return to private control of functions that government has been performing; and the transference to the state and local governments of powers that are now exercised by the federal government. Dr. Truman explores a third possibility,—the delegation by Washington of increased discretionary authority to the field agents of the federal government. Through this method, policies of national concern would remain within the constitutional authority of Congress and the higher executive officials, but the actual administration of these policies could be tempered to local situations by members of the field service who are daily in intimate contact with local opinion and local problems.

The book itself is an excellent piece of work. The author is the master of his materials, and never lets his detailed knowledge of specific cases divert his attention from the principal issues. The

style is a model for scholarly works, and errs only in the direction of unnecessary repetition of the author's principal findings and conclusions.

Topics dealt with include the advantages and disadvantages of centralization, the types and methods of decentralization, the problems of coordinating related activities in the field, the devices for central supervision of field agents, and the relation of field agents to local pressure groups. To give focus to the study, particular attention is devoted to the Chicago offices of the Bureau of Animal Industry, Agricultural Marketing Service, Food and Drug Administration, and Commodity Exchange Administration, all of which were within the United States Department of Agriculture at the time of the original research. With regard to inter-agency cooperation Chicago is probably atypical, as it is one of the very few cities that federal bureaus have agreed upon in their independent selections of key cities for field activities. With this one qualification, the generalizations of the author appear to have a validity that makes them of significance to all students of administrative decentralization.

University of North Carolina James W. Fesler

Centralized vs. Decentralized Government in Relation to Democracy. By Paul Studenski and Paul R. Mort. New York: Bureau of Publications, Teachers College, Columbia University, 1941. Pp. vii, 69. Paper covers. 75 cents.

This slender volume provides a valuable recapitulation of the respective merits of local control and central control of governmental activities, and of the respective disadvantages of excessive decentralization and excessive centralization. Its virtue lies largely in its provision of a more complete itemization of these merits and demerits than has hitherto been compiled, and in its sound, if obvious, conclusion that central and local governments should live in harmony, sharing the control of most spheres of public activity.

One purpose of the study was to survey the political science literatures of the United States, England, and other countries for significant comments on central-local relations. This survey seems very incomplete. The whole American literature on federal

grants-in-aid is ignored, and its existence is practically denied (page 47); the now significantly large literature on American regionalism is scarcely noted, although the French regionalist writers are quoted several times; and a number of American scholars whose names spring to mind when centralization and decentralization are mentioned, receive no recognition by the authors. None the less, the volume calls the reader's attention to excellent sources of opinion on the principal problems treated, and as a whole furnishes a careful, analytical discussion of the theories of centralization and decentralization.

University of North Carolina JAMES W. FESLER

The Spanish Guild Merchant: A History of the Consulado, 1250–1700. By Robert Sidney Smith. Durham, N. C.: Duke University Press, 1940. Pp. xii, 167. $2.50.

This little volume is a notable contribution to the economic and institutional history of Spain because it deals with an important institution which has received comparatively little attention from economic historians. Maritime trade which had been expanding in the North, Baltic, and Mediterranean Seas since the tenth century was gradually breaking down the "feudal system" by making its small economic units increasingly interdependent. In many countries merchants engaged in this overseas trade were among the first of the *bourgeois* class to acquire both prestige and wealth; and, when they did, they appear to have found it beneficial to organize in formal associations. The Spanish guild merchant—commonly known as the Consulado de Mar (Sea Consulate)—was such an association; and, as a rule, it was first organized in those eastern towns which played the most prominent roles in the expanding commerce of the western Mediterranean. A study of such an institution illuminates many dark passages in the maze which economic historians of the late Middle Ages must tread if they seek to determine the forces which helped lead to the rise of modern industry and the institutions associated with a capitalistic economy.

One of the fundamental motives behind the establishment of the Consulado, according to Professor Smith, "was to secure the expeditious, economical, and equitable adjudication of disputes concerning maritime and mercantile contracts" (p. 6). The guilds

in Spain usually "served the ends of equity and justice, as these concepts were understood by merchants," but "only partial success rewarded the merchants' endeavors to secure justice with economy and dispatch." Jurisdictional disputes soon became both numerous and complicated because the consular judges —who were usually merchants—failed "to establish a precise and universally recognized area of jurisdiction." During the eighteenth century, furthermore, the conviction grew that merchants were not qualified by their knowledge of business alone to sit in judgment on many types of actions. The confusion resulting from the absence of a uniform and definite commercial law in Spain was not remedied until 1829, when the first Spanish Código de Comercio was promulgated.

Especially during the first four centuries of its history the Spanish Consulado combined the attributes of a guild merchant with those of a commercial-maritime court. At least until the eighteenth century the guild merchant was chiefly concerned with protecting overseas trade. In conjunction with the government the guilds sought to render overseas shipping safe from privateers and national enemies; they sought to obtain tariffs, insurance and sea-loan statutes, and legislation in general which would discriminate in favor of their members; and they carried on costly public works which were "necessary for the safety of navigation and the encouragement of commerce." Their manifold duties, coupled with an apparent absence of business acumen on the part of their officials, nearly always led the guilds into financial difficulty. The state, furthermore, made matters worse by calling upon the merchant class for financial assistance in times of peace as well as in times of war.

Professor Smith, in the last chapter of his study, observes that the guild merchant was not so important in local affairs as to make the municipality and the Consulado synonymous. "After all," he writes, "the merchant guild was but one of the many occupational and professional organizations, functioning within the framework of the municipality, which were characteristic of town economy in the medieval and early modern periods" (p. 118). Furthermore, he concludes, the Spanish Consulado embodied all the characteristics outlined by Doren as essential to a guild mer-

chant; and, consequently, there is little reason to agree with the statement that the guild merchant (except as to name) was " 'in its typical form a specifically German institution.' "

Professor Smith's perseverance and linguistic ability enabled him to deal successfully with many idiomatic and paleographic problems in the thirteenth- and fourteenth-century documents he examined which would doubtless have discouraged a less intrepid and less skillful investigator. The reviewer has naught but admiration for the painstaking research represented in this volume; on the other hand, he regrets that its author was all too successful in his attempt to economize space in the presentation of the results of his study. The abundant material on the Consulado has been compressed within 122 pages of text with the result that the literary style rarely sparkles and, consequently, makes rather slow reading. According to the Preface, a "myriad of interesting and irrelevant [?] facts exhumed from the archives of the Spanish guilds" were ruled out to conserve space. This is indeed unfortunate for their inclusion would have enlivened the account without detracting in the least from such scholarly merits as a carefully documented text, 17 pages of important material in the appendices, and 16 pages of bibliographical information.

The University of Texas WARREN C. SCOVILLE

The Economics of Ancient Greece. By H. Michell. New York: Macmillan Co., 1940. Pp. xi, 415. $4.00.

This book contains a very useful and convenient review of the details of Greek economic activities in all their various phases. It is well documented and contains an adequate select bibliography. The products of the farms, the mines and the shops of the Greeks are each treated in their turn. Labor is given much space; there are three chapters devoted to commerce, one to money and banking and a final chapter to public finance. The study closes with the end of the classic period. When the author turns from presentation of facts to interpretation, it is often difficult to follow him. For example modern scholarship has tended to deny that Athenian citizens in great mass lived on a dole from the state while metics and slaves did the work. Nor can we agree that Greek attempts

to resist the growing power of Rome, however fatal in the end, amounted to "political wrongheadedness."

University of North Carolina WALLACE E. CALDWELL

An Introduction to Economics. By Clyde G. Chenoweth. New York: Henry Holt and Co., 1941. Pp. 677. $3.00.

The subject-matter of economics is outlined in an interesting style and with a nice sense of historical relativity in Part I of this text. Emphasis is placed upon institutional relationships and upon functions, rather than physical factors, in production.

The gradual introduction of the uninitiated to some fundamental concepts is good, e.g., diminishing utility (p. 25), medium of exchange (p. 58), and the problem of distributive shares (pp. 75-76). However, discussion of diminishing utility is not resumed in considering market demand (p. 230) but is used to develop the principle of a margin of consumption in connection with the functioning of the economic system as a whole (p. 520).

In discussing market conditions a clear-cut distinction is made between the schedule and the market conceptions of demand and supply. The marginal analysis is used to explain price determination in the consumers' goods market but is not carried over to the markets for the factors. Productive functions are reduced to labor, waiting and risk-taking. Since land is treated as a capital good, the return to both landowners and owners of other capital goods consists of interest (reward for waiting) and profits (reward for risk-taking). The importance of decision-making is not stressed. Presumably this function is borne by investors, in some cases, and by labor in the form of salaried executives, in others. Since the average student would not interpret labor in this broad sense, it is unfortunate that it is not so defined until page 497.

The author's plan for "stabilization of profit possibilities" gives rise to a number of questions which would provide a stimulating exercise for advanced students but would tend to confuse those who are just being introduced to monetary problems.

The description of specific fields of economic activity is well done. Special mention may be made of the treatment of insurance, income and inheritance taxation, the role of governmental activity, and business organization. The section on international trade is

less satisfactory, the law of comparative advantage being discussed in the old terms of labor cost although the bases for criticism of such an approach are suggested in a footnote to page 514. The terms "inflation," "competition" and "monopoly" are used frequently throughout the work without any clear statement as to their precise meaning.

This text should prove useful in orienting immature students to the study of economics in its broader, institutional sense.

Webber College VERA REYNOLDS KILDUFF

Introduction to Business. By Simon G. Hanson. New York: Thomas Nelson & Sons, 1941. Pp. xviii, 843. $3.50.

This text for an introductory course in business follows the usual pattern as to content. It is divided into eight parts covering the following aspects of business: organization, records, finance, labor relations, production, marketing, and government and business. Its purpose is to describe and explain the various mechanisms and institutions of business.

Although the author believes that his text "breaks sharply with the ordinary course in Principles of Economics" such need not be the case. It is difficult to teach realistically a course in principles without knowing something of the terminology, the methods, and the problems of the business world. A treatise such as this, designated possibly as descriptive economics, might be used to carry much of the description of the business structure and of business situations which constitute a large part of the subject matter of the principles of economics.

As a realistic, well-written textbook, however, little can be found in this volume except to praise. The author amplifies a lucid style by illustrations and citations from actual cases and by quotations from the pertinent, and often piquant, statements of modern business leaders. No attempt is made to theorize, to evaluate, or to propagandize; the main purpose is adhered to of throwing more light upon an ever-changing subject. Finally, the text is well documented throughout and at the end of each chapter are appended lists of study questions and problems and a bibliography of suggested assignments for supplementary reading.

University of Alabama E. H. ANDERSON

STATE REPORTS

ALABAMA

The Alabama State Department of Finance has released the following figures on the reduction of debt by the state during the Dixon administration:

1939, $1,750,000
1940, 1,822,000
1941, 2,295,000
1942, 2,510,000
Total for 4 years, $8,377,000.

The estimated indebtedness as of September 30, 1942 will be $65,735,000.

The State Department of Revenue continues to have strong collections of tax revenues with the result that substantial surpluses are in prospect. As a result, Governor Dixon has announced the intention of reducing the ad valorem tax rate on property if his legal advisers decide that he has the authority under the existing laws to take such action. Otherwise he expects to incorporate the recommendation that such action be taken in his message to the next legislative session.

* * * *

The Experience Rating plan which was enacted by the legislature and incorporated in the Code of Alabama has been put into effect. The State Department of Industrial Relations has conducted a series of meetings in various parts of the state to acquaint employers with the provisions of the law.

* * * *

The Bureau of Public Administration of the University of Alabama sponsored a conference on the effect of the defense program on state finances, January 31 and February 1, 1941. Representatives of the state of Alabama and neighboring states attended and participated in round table discussions. The relationship of

federal and provincial finance in Canada and Australia was discussed by Mr. Arthur Smithies of the University of Michigan, who represented Mr. R. G. Casey, the Australian Minister, and Mr. Eric Cross, Member of Parliament, Ontario, Canada. Mr. Harold D. Smith, Director of the Budget of the United States, discussed the problem from the point of view of the national government. Dr. Leland, of the University of Chicago, discussed the impact of the defense finance program upon the economy of the country.

* * * *

Industrial activity in Alabama during the first quarter of 1941 showed no decided change from the peak levels reached at the end of 1940. The cyclical index of industrial activity compiled by the Bureau of Business Research of the University of Alabama averaged 34.7 per cent above computed normal during the quarter. In March, the bureau began the publication of its industrial activity index, adjusted for seasonal variation only. This index, with 1935–39 average month = 100, is comparable with the new Federal Reserve Index and averaged 160 during the first quarter of 1941.

During the quarter, pig iron, steel ingot and coke production and cotton consumption experienced only slight variation, the first three apparently operating at capacity levels. Coal production in March was the largest for any single month since January, 1930, but idleness in the mines since April 1, due to labor difficulties, has caused a sharp curtailment of production. This stoppage of coal production is threatening the heavy industries with a shortage of fuel. Electric energy sales in the state for industrial uses were more than a third larger during the first quarter of 1941 than during the same period of 1940.

Employment conditions in the state continued to improve steadily. Except for a slight decline in January, due to the layoff of retail clerks, numbers on pay rolls of approximately 1500 establishments increased each month of the quarter and averaged 12 per cent above the first quarter of 1940. Pay rolls increased even more rapidly and averaged better than 20 per cent above the corresponding quarter of 1940.

Reflecting the increased incomes of wage earners, sales activity during the first quarter showed decided increases over 1940. Sales

of new passenger cars in March were the largest for any single month since 1929. Sales during the first three months exceeded the first quarter of 1940 by 46 per cent. Gasoline sales were nearly 20 per cent larger than in the first quarter of 1940. Department store sales in Birmingham and sales of retail stores throughout the state recorded sizeable gains over the first quarter of 1940 in spite of the earlier Easter of last year.

University of Alabama H. H. CHAPMAN

FLORIDA

The Brookings Institution has completed its survey of Florida public finance for the Tax Inquiry Council of Florida and published its report under the title "The Florida Fiscal Situation: A Preliminary Study". The report characterizes the state's tax system as being highly regressive and burdening "consumers more than an ideal tax system should". Support for this position is found in the fact that more than 60 per cent of state revenues are derived from the gasoline tax, the retailers' occupation tax, and the beverage tax. The decline in the productivity of the general property tax is cited as "the most arresting feature of the revenue system of Florida". This fact is attributed to homestead exemption, exemption for industrial promotion, an unsatisfactory system of assessment, and a weak collection policy. The recommendations made by the study deal mainly with fiscal administration; no effort being made to recommend any basic overhauling of the tax structure. Among the major recommendations are:

(1) The state government should provide proper and adequate supervision over local assessment, including the setting up of some appropriate state administrative agency for the equalization of assessments as between counties and as between subdivisions within a county.

(2) The abandonment of the legislative policy, begun at least as early as 1929 and continued by every legislature down through 1937 when the Murphy Act was passed (see this *Journal*, January, 1941), of enacting tax compromise measures which have "impaired the public credit of local subdivisions and injured taxpayers who have paid in full and on time". The present need is to make a new start by (a) revision of the tax collection and tax sales laws;

(b) unification of local tax billing and collecting; (c) prompt and wise disposition of tax-reverted properties, and (d) the development of appropriate forms of supervision by the state over local governments themselves.

(3) The elimination of continuing appropriations with their earmarked revenues. The average state disbursements over the past seven years have been just under $49 million per year. The average legislative general appropriations have been just under $9 million each year. The annual $40 million difference is entirely due to continuing appropriations, which are not budgeted and are not passed upon by each legislature as are biennial appropriations. Over the past seven-year period continuing appropriations have constituted 82 per cent of the state's total appropriations and in 1940 they constituted 85 per cent. Concerning this situation, the report stated: "The system of continuing appropriations and ear-marked revenues is the outstanding evil. It tends to expand since the beneficiaries of more and more functions seek to secure assured financing, to escape legislative and administrative control, and to tap the general revenue fund in case of shortage".

(4) The institution of a proper budgeting system. The existence of the continuing appropriations practice is noted as making proper budgeting procedure impossible. In addition to this, the present budget commission is composed of the Governor and his cabinet, which necessarily makes the construction of the budget a part-time job. "Under these conditions the budget tends to be a mere collection of inadequately reviewed departmental estimates. It does not present a complete set of financial statements necessary to furnish a comprehensive understanding of the state's financial situation."

What the effect of these recommendations upon the 1941 legislature will be remains largely to be seen, for that body is in session as this is being written. During the first six weeks of the session constitutionally limited to 60 days, some four fiscal measures, all supported by Governor Holland, have been passed. The seventh cent of the gasoline tax which would have expired June 30 was renewed, one-half cent going to the public school fund and one-half cent to the general revenue fund. The tax on pari-mutuel betting was raised from 3 per cent to 8 per cent, all of the proceeds

going to old age pensions. The money collected from the sale of lands reverting to the state under the Murphy Act have been turned over to the general revenue fund, a measure recommended by the Brookings report. The fourth fiscal measure concerns the six cent gasoline tax which is used for highway purposes. At present, 3 cents of the tax is used for highway construction and maintenance and 3 cents for servicing county bonds issued to pay for roads and bridges now a part of the state highway system. The program approved by the 1941 legislature calls for a constitutional amendment, to be submitted to the electorate in 1942, providing for an allocation of two cents of the gasoline tax for the servicing of county road and bridge bonds and authorizing the State Board of Administration of the Highway Department to refund these county bonds. It is thought that by making a constitutional allocation of funds to these bonds that they can be refunded at substantially lower rates of interest, and at the same time comply with the constitutional prohibition against the state issuing its own bonds. The remaining four cents of the gasoline tax is to be used by the Road Department for maintenance and construction purposes.

Two proposed constitutional amendments dealing with fiscal problems were early and easily defeated. These would have abolished the present constitutional prohibition against an income tax and would have forbade any adjustment, compromise, or cancellation of legally assessed and levied taxes.

It is estimated that the state will need approximately $5,000,000 of additional revenues to take care of the existing deficit, increased appropriations, and to replace funds lost through the constitutional prohibition of state taxes on real property effective this year and the anticipated repeal of the gross receipts tax.

A number of measures aimed at the curbing of organized labor's power have been introduced, but, as yet, none have passed. The attorney-general sponsored a bill that would outlaw the closed shop on all jobs paid for by state or local governments. Other anti-union proposals include a bill that would limit union initiation fees to $10 and monthly dues to one per cent of a worker's wages and a constitutional amendment proposing "that the right of citizens to work shall not be denied or abridged on account of non-membership in any organization".

The legislature has reaffirmed its belief in price fixing by killing bills that would have abolished the State Milk Board and the State Laundry and Dry Cleaning Board, both of which have power to set prices in their respective industries. In addition, it has approved a law providing for the setting of prices charged by barbers.

University of Florida JOHN B. MCFERRIN

GEORGIA

Evidence of increased public interest in the activities of organized labor is indicated by labor legislation considered by the General Assembly during its recent session. Two bills dealing with labor were passed by the legislature and signed by the Governor, while a third and more controversial measure was vetoed by him. The measures receiving Governor Talmadge's signature require unions to give an employer 30 days notice before calling a strike against him, and require taxicab drivers to carry passengers to their destination regardless of whether or not the destination is involved in a strike. This latter law arose out of a strike against an Atlanta hotel, in which it was charged that taxicab drivers were discriminating against the hotel by refusing to carry fares to that destination. The bill which was vetoed was the controversial Edward's bill, which would have prohibited the closed shop on construction work on emergency defense camps in the state, and also would have prohibited labor unions from charging initiation fees or dues to workers on defense projects in Georgia. This bill received such widespread public notice that it was copied in other states and has been called to the attention of members of Congress. Though vetoed by the Governor on the grounds that this was a matter for federal action, the large majorities by which the bill passed both houses of the General Assembly seem to show that the rank and file of legislators, and their constituents, are not favorably disposed toward the high initiation fees, $50.00 or $60.00 in some cases, charged by the labor unions even for transient laborers on national defense camp projects.

Other legislation passed by the General Assembly has brought the state administration into sharp conflict with the Social Security Board. The legislature has given the chief executive of the state

authority to publish lists of those receiving old age assistance. This seems to run directly counter to federal legislation which requires that by July 1 each state must make definite provision to protect the confidential nature of the lists of those receiving such aid. The federal law also provides for the selection of welfare workers on a merit basis, while the recent Georgia law grants authority to the governor to discharge members and directors of county welfare boards. As a result, federal grants to the state for the second quarter of this year were held up temporarily, but are now being released on a month-to-month basis, pending a more complete investigation by the federal authorities. Acting under the authority given to him by the new law, Governor Talmadge has published names of persons receiving old age grants in his own newspaper, *The Statesman*. At the time of writing, no final solution of the controversy has appeared.

Emory University ALBERT GRIFFIN

KENTUCKY

The 1940 General Assembly enacted a measure extending the public school transportation provisions of the statutes to include children attending parochial and other private schools. This act is now being attacked on the grounds of its constitutionality in the courts. That it will be appealed to the Court of Appeals regardless of the decision of the lower court is considered certain. The case bids fair to attract considerable interest.

The question of the constitutionality of the act passed at the 1940 legislative session granting pensions to judges of the Court of Appeals was finally settled when the special court, appointed to try the case, granted a rehearing, only to void the statute a second time by the same four-to-three decision it had rendered originally. The seven men were of the same opinion still.

Another court decision having general as well as state interest was that having to do with the obligation of county school boards to pay gasoline taxes on gasoline bought for use in school busses operated by the county for the transportation of children to and from school. The school district refused to pay the tax and the Department of Finance withheld an equivalent amount from the state appropriation to the district. The district sued in equity to

recover but the Court of Appeals upheld the Department of Revenue in its attempt to collect the tax.

Excessive and discriminatory license fees levied by local governments upon out-of-town firms seeking to do business locally were discouraged by two recent Court of Appeals decisions. A Tennessee laundry won both cases, one involving an annual fee of $400.00 and the other $200.00 levied upon the firm by Kentucky municipalities for the privilege of soliciting business. The fee for local firms in one case was only $50.00.

University of Kentucky RODMAN SULLIVAN

MISSISSIPPI

The trend in recent years toward industrial development in the South has been less pronounced in Mississippi than in the other southern states. The main reason for this industrial lag in Mississippi has been a relative lack of known factors such as adequate raw materials, strategic transportation facilities, advantages in water or other power, superior quality of labor, etc., that are necessary for industrial development. The result is that, with limited exceptions, industrial progress in Mississippi has been of the small shop, or small factory type—and even those, in a large number and probably most cases have been induced by subsidies of various forms, such as tax exemption, financial or building grants, and exploited labor. In the main, there does not appear to be a basis for sound hope for industry as a major factor in the state's economy.

Probably the most important resources that now show promise for industrial development beyond the small factory scale are its clays, forest products, and oil. With respect to clays, without attempting to overparticularize, local geologists report that, for a number of purposes, Mississippi has some of the finest clays in the country. At present, however, the processing of these clays has not yet advanced far enough to demonstrate large possibilities. Although clay processing in the state is still in the small shop phase, beginnings have been made on a larger scale along two or three lines in which Mississippi clays apparently hold an advantage. Probably the two most important of these are in refining clays particularly adaptable to petroleum refining and in foundry

clays. One plant in Jackson supplies the major share of clay in the refineries of Louisiana and other states where the transportation costs are favorable. With respect to foundry clays, the state is developing markets, both domestic and foreign, in that product also. In one recent month, for example, one clay plant in Mississippi shipped nine carloads of foundry clay to Britain at a time when cargo space was at a premium.

With respect to forestry industries, Mississippi formerly occupied an important position in lumbering. Most of the forests have been exploited, however, even to the point where most of the larger lumber mills have either been moved away or are looking to a time when, in very few years hence, they will move away also. Behind them are left ghost towns and lumber railroads that are being salvaged at their scrap value. In place of these larger mills are now found small stave mills and portable sawmills thickly spotted over the timber sections of the state, sawing either second growth timber or timber that was not profitable for the larger ones to cut.

A second phase of this forest products industry is developing, and offers prospects of considerable proportions. This consists primarily of such industries as paper and pulp mills and other forest products that do not require large timbers. As outposts of this new development may be mentioned a large paper mill operated by the Kraft Paper Company in the southern part of the state and composition board factories in Laurel and in Meridian.

Another industry, and undoubtedly the one that offers most promise at the present time, is oil production. The first oil well in Mississippi was brought in in August, 1939. Since that time 11 companies and independent operators have brought in over 150 wells. The deepest of these wells measures 5053 feet. The total production to April 29 of this year was 6,354,180 barrels. Although a large majority of these wells are located in the east central part of the state near Yazoo City, an encouraging feature is that others are sufficiently spotted over the state to indicate that the fields may be fairly general.

Most of this oil has been processed in refineries outside of Mississippi, particularly in Baton Rouge, Louisiana. However, a refinery recently constructed at Vicksburg has averaged approxi-

mately 39,000 barrels monthly since its completion. Another refinery is in process of construction at Yazoo City, and a third one is being promoted in Memphis to draw largely on Mississippi oil.

A recent decision by the state Supreme Court is of significance with respect to industrial subsidies in the state. This decision relates to the Balance Agriculture with Industry Program enacted in 1936. This act authorized municipalities to grant exemption from state and local ad valorem taxes, and also to float bond issues for the purchase of sites and construction of plants for new industries for a period of five years. The law terminated by expiration on April 1, 1940, and was not reenacted.

The point at issue in the above case was whether the tax exemption allowed under the 1936 law applied to all industries organized in the state during the life of the act or to only those developed under contractual arrangements with municipalities under the subsidy provisions. The court held that the exemption applied indiscriminately to all industries, whether subsidized by municipal bond issues or not. The effect of this decision then is to exempt for a period of five years from ad valorem taxes every industry organized in Mississippi between the date of enactment in 1936 to April 1, 1940.

University of Mississippi ROSCOE ARANT

NORTH CAROLINA

After a slow start last year, North Carolina has been receiving an increasing amount of national defense orders. Between July 1 and December 15, 1940, the total of such orders was only about $20,000,000, but between the latter date and April 30, 1941, the volume rose to more than $116,000,000. The more important construction projects with estimated approximate costs are as follows: Fort Bragg, over $32,000,000; shipbuilding yards at Wilmington and the construction of 12 cargo vessels, over $27,000,000; a Marine Corps base near Wilmington, $13,000,000; Camp Davis, an anti-aircraft firing base, about $9,000,000. At least two other important projects are under consideration, including a large seaplane base at Elizabeth City. The cotton textile industry has received the bulk of the orders placed for commodities in the state. The industry is now operating at

capacity to fill orders amounting to many millions of dollars for bed sheets, socks, underwear, khaki cloth, and tents. Large orders for wool blankets and wool socks have also been placed.

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The 1941 session of the legislature made several changes affecting the state's finances for the fiscal year beginning July 1, 1941. Some of them are:

1. Total appropriations are nearly $80,000,000, or almost $3,000,000 above actual expenditures for 1940.

2. The use tax was thoroughly revised, the principal change being to require out-of-state mail order houses to collect and pay the use tax on goods sold within the state. This is permissible under recent decisions of federal courts.

3. Aid to local governments was increased in two ways: (a) the appropriation for maintenance of city streets forming part of the state highway system was increased from $500,000 to $1,000,000; and (b) the state returns to local governments 75 per cent instead of 60 per cent of the receipts from the tax on intangibles.

4. Exemption from the sales tax is extended to the sale of all food products for human consumption except prepared meals.

The recent session of the legislature also established a Merit System Council, whose duty it is to bring under a merit system approximately 3,000 employees of the State Board of Charities and Public Welfare, the State Commission for the Blind, the Unemployment Compensation Commission, and the State Board of Health. Employees of the county, city and district health departments and of the County Welfare Boards are likewise included in the system. This law marks a step towards state civil service in setting up an independent council which supersedes three former merit system councils responsible to each agency.

The legislature likewise established a commission to study the prospects of a state-wide civil service system. This commission, to be appointed by the Governor, will report to the 1943 legislature.

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An interesting and significant new industry in the state is represented by the Ecusta Paper Corporation of Pisgah Forest, which manufactures cigarette paper. The corporation first began

operations in the summer of 1939 and has just recently completed a substantial addition to its plant. The total investment in plant and equipment is approximately $8,000,000. The concern employs about 1,100 people and has an annual pay roll of approximately $975,000. Its principal raw material is American flax, which it consumes at the rate of about $1,000,000 worth per year. The corporation produces about one-half of all cigarette paper produced in this country.

The construction of this plant was particularly timely. Only a few years ago the cigarette industry was entirely dependent on cigarette paper imported from abroad—principally France. Now it is impossible to secure paper from abroad. If the above plant were not in operation it is probable that the cigarette industry would now be facing an acute shortage of paper.

Duke University B. U. RATCHFORD

SOUTH CAROLINA

The Pittsburgh Metallurgical Company has purchased the Tuxbury Lumber Company property near Charleston for the purpose of erecting a steel plant to make ferrosilicon, high and low carbon chromium, ferromanganese, and silicomanganese. Its president, Mr. Charles F. Colbert, states that they expect to be in operation by September 1, 1941. The initial outlay is expected to be about $1,000,000 with an ultimate expansion to about $5,000,000. The plant is well located so far as transportation facilities are concerned, being on deep water and having access to all the railroads entering Charleston. Work has already started on the site and construction will be under way shortly. This is the first large industry to contract for purchase of power to be supplied from Santee-Cooper hydroelectric development now being completed at a cost of approximately $40,000,000.

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Clemson College is promoting a study under the supervision of the Department of Agricultural Economics and Rural Sociology of the South Carolina Experiment Station which may have a profound effect on the economy not only of South Carolina but of other southern states as well. It is intended to investigate small-scale

rural enterprises in South Carolina, determine which are most successful in increasing farm income and then to encourage the development of those enterprises found most practical. The study has been in progress for a year and is expected to continue four years more, and is financed chiefly by a grant from the General Education Board.

Since gross per capita income in South Carolina is only slightly more than $100 a year and for at least half the farm families considerably less than this, the practical possibilities of the study are vast. Some of the enterprises under investigation as a means of adding to farm income are canning and food preservation, cotton gins, corn mills, syrup mills, handicrafts, contract work with farm equipment and turpentine distilleries.

As a practical effort to help the farmer to help himself, the result of the study may be of interest to the entire South.

Clemson College G. H. Aull

TENNESSEE

While attention of business and governmental circles in Tennessee, as in many other states, is rivetted on the program of obtaining defense contracts for local firms, the problem of relief for the needy unemployed passes almost unnoticed. That current relief needs are still large, despite the industrial pick-up occasioned by the defense program, is evidenced by all available estimates of current unemployment as well as by direct observation. The purpose of this note is to call attention to the astonishingly meager sums now being expended in Tennessee, as well as in certain other states, on local relief needs.

Tennessee's expenditure for "general relief" for the year 1940 amounted to an equivalent of 10 cents per inhabitant of the state, according to data collected by the federal Social Security Board. General relief is financed entirely from state funds or local funds or both, as distinguished from those types of relief and public assistance which are financed wholly or in part by the federal government, i.e., W. P. A. earnings, old-age assistance, aid to dependent children, aid to the blind. Tennessee's figure of 10 cents per inhabitant for general relief in 1940 may be contrasted with $7.99 per inhabitant spent in New York state, $5.61 per

inhabitant in California, and $3.07 per inhabitant for the country as a whole. No southern state spent as much as 50 cents per inhabitant on general relief during the whole of the year 1940 except Louisiana, whose figure amounted to 77 cents per inhabitant.

If we compare the amount spent on general relief with the amounts expended on the federal-aid categories of relief and assistance, we find that general relief in Tennessee amounted to less than one cent of the total public relief dollar spent in Tennessee for the month of December, 1940, while in the country as a whole the corresponding figure was nearly 14 cents. During that month, Memphis, the largest city in the state, spent four-tenths of a cent on general relief out of the total public relief dollar spent in Memphis, the latter including W. P. A. earnings, old-age assistance, aid to dependent children and aid to the blind. This may be compared with the situation in three other cities in the United States which are approximately of the same population as Memphis, and which spent about the same *total* amount on relief in December, 1940. General relief as a fraction of total public relief dollar:

Memphis, Tenn.	0.4 cents
Dallas, Tex.	5.2 cents
Louisville, Ky.	10.0 cents
Jersey City, N. J.	32.8 cents

A similar calculation may be made for cities of approximately the same size and total relief expenditure as Nashville and Knoxville. (Data for Chattanooga is not immediately available.) General relief as a fraction of total public relief dollar, December, 1940:

Nashville, Tenn.	1.0 cents	Kansas City, Kan.	16.5 cents
Knoxville, Tenn.	0.97 cents	Fall River, Mass.	25.0 cents
Tulsa, Okla.	3.0 cents	Hartford, Conn.	36.5 cents
Ft. Worth, Tex.	3.6 cents		

It appears that expenditures on general relief are relatively lower in Tennessee cities than in many other southern cities. The following data apply to ten southern cities selected without regard to population or total relief expenditures. They all show a relatively low proportion of general relief (locally financed) to

total relief, but at the same time all ten are higher in this respect than the three Tennessee cities already cited. General relief as a fraction of total public relief dollar, December, 1940:

Winston-Salem, N. C.	8.4 cents	Charlotte, N. C.	4.6 cents
Richmond, Va.	6.9 cents	Norfolk, Va.	2.5 cents
New Orleans, La.	5.4 cents	Jacksonville, Fla.	1.7 cents
Atlanta, Ga.	4.8 cents	Birmingham, Ala.	1.6 cents
Miami, Fla.	4.6 cents	Charleston, S. C.	1.4 cents

All of the above calculations have been made on the basis of data provided by the Social Security Bulletin, Vol. 4, No. 3, March, 1941, Social Security Board, Washington, D. C.

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The first annual Insurance Short Course sponsored jointly by the University of Tennessee and the Tennessee Association of Insurance Agents was held at the University of Tennessee by Professor Paul Barnett.

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The Bureau of Business Research of the School of Business Administration of the University of Tennessee will publish in June a study of industrial development in Tennessee by Professor Paul Barnett.

Fisk University ADDISON T. CUTLER

PERSONNEL NOTES

Boris G. Alexander, professor of economics at LeMoyne College, Memphis, Tennessee, will be on leave of absence for the year 1941–42.

Karl E. Ashburn, head of the Department of Economics and Business Administration at Southwestern Louisiana Institute, was chairman of the economics, business administration, and accounting joint session of a meeting of the Southwestern Social Science Association held in Dallas, Texas, April 11 and 12.

Paul Barnett of the University of Tennessee is the author of a recent study entitled *Business Cycle Theory in the United States, 1860–1900*, published in the series Studies in Business Administration, School of Business, University of Chicago.

E. M. Bernstein, professor of economics at the University of North Carolina, will continue his work in monetary research in the United States Treasury Department during the academic year 1941–42.

W. K. Bing, instructor in the Department of Agricultural Economics and Rural Sociology at Clemson College, has accepted a fellowship at the University of Chicago, where he will continue work toward an advanced degree.

Martin L. Black of Duke University will be on leave next year and plans to spend the year in New York City studying recent developments in accounting.

Gladys Boone, professor of economics at Sweet Briar College in Virginia, was asked by General Philip B. Fleming, administrator of the Wage and Hour Division, U. S. Department of Labor, to serve on a committee meeting in Washington on June 10 to recommend a new minimum wage for the women's apparel industry.

Buford Brandis, a former graduate student at Duke University, who spent last year at the Littauer School of Harvard University, is now with the Department of Research and Statistics of the Federal Reserve Bank of Atlanta.

R. W. Bryan has resigned as professor of business administration at the University of Tampa to enter business in Kansas City, Missouri.

Arnold Cameron has been appointed instructor in business administration at Tennessee Polytechnic Institute.

A. L. Campbell, head of the Department of Business Administration at Tennessee Polytechnic Institute, has been called for active duty with the U. S. Army as Captain in the Medical Administration Corps. Louis Johnson, Jr. has been appointed to serve during his absence.

H. W. Cordell of Ohio State University will offer courses in marketing and finance at the University of Tennessee during the second term of summer school.

Walter H. Delaplane of Duke University has received a grant-in-aid from the Social Science Research Council and is spending the summer in Bogota, Colombia, studying the monetary experience of that country since the banking and currency reforms of 1923 and the effects of the present war on the Colombian currency.

S. M. Derrick, professor of economics at the University of South Carolina, was appointed recently on a committee to make a study of the administration of workmen's compensation laws in South Carolina.

W. Clyde Dunn, assistant professor of political science and economics at Southwestern College, has accepted a General Education Board fellowship for study at Princeton University during the coming academic year.

J. Wesley Fly, instructor in accounting at the University of Florida, is doing graduate work at the University of Illinois during the summer session.

Dorsey Forrest, instructor in the School of Business of Texas Christian University, is doing graduate work at Ohio State University this summer.

R. Murray Havens of Duke University has accepted a position as assistant professor of economics at Baldwin-Wallace College, Berea, Ohio.

C. Addison Hickman, assistant professor of business administration at John B. Stetson University, has had his leave of absence extended for another year to complete his doctorate at the Univer-

sity of Iowa. Edward C. Furlong will continue to fill the vacancy caused by his absence.

Ralph C. Hon, president of the Southern Economic Association, has received a year's leave of absence from his post as professor of economics at Southwestern College in order to accept an appointment for 1941–42 at Duke University.

Marshall D. Ketchum, assistant professor of economics in the College of Commerce of the University of Kentucky, will be professorial lecturer in the School of Business of the University of Chicago during the summer quarter of 1941.

Joseph N. Leinbach, formerly of Lynchburg College, is now associate professor of business administration at the University of Tampa.

Richard A. Lester of Duke University has received a post-doctoral research training fellowship from the Social Science Research Council and will spend next year studying wage and employment policies and the labor market.

Mary S. McCurdie, assistant professor of secretarial science at John B. Stetson University, is doing graduate work at New York University during the summer session.

Clifford E. Maser of the Department of Business Administration at Rollins College is studying at Columbia University this summer.

William Melcher, professor of business administration at Rollins College, has been elected president of the Florida Association of Colleges and Universities.

Clyde W. Phelps, head of the Department of Economics at the University of Chattanooga, is the author of two monographs published this spring, entitled respectively: *Bookkeeping for Credit Control* and *Accounts Receivable Systems for Small Stores*.

Henry J. Rehn of Temple University will offer courses in accounting at the University of Tennessee during the second term of summer school.

G. T. Schwenning, professor of business administration, University of North Carolina, has accepted an appointment on the Economics Advisory Board of the American Council on Public Affairs.

Robert S. Smith of Duke University has received a grant-in-aid from the Social Science Research Council and is spending the

summer working in the Mexican National Archives on Spanish-American trade during the colonial period.

J. J. Spengler of Duke University will be on leave during the first semester of next year while he works on several research projects.

J. M. Stepp in the Department of Agricultural Economics and Rural Sociology at Clemson College is making a study of the canning industry in South Carolina. The results are expected to be particularly helpful in connection with national defense efforts.

Frank B. Ward, professor of economics, will conduct a special graduate course at the University of Tennessee, July 7–August 9, devoted to a study of social and economic problems of the Tennessee Valley area. Two weeks will be spent in field trips to T.V.A. dams and experimental areas.

Paul F. Wendt, assistant professor of economics at Maryville College, Tennessee, has just completed requirements for the Ph. D. degree at Columbia University.

T. W. Wood of Virginia Polytechnic Institute has completed the requirements for the Ph.D. degree at the University of North Carolina. He will return to his teaching duties this fall.

E. W. Zimmermann, Kenan professor of economics at the University of North Carolina, will teach in the summer school of the University of Texas.

NOTES

Dr. Ralph C. Hon, president of the Southern Economic Association, has appointed the Nominating Committee consisting of Professor G. H. Aull, chairman, Clemson College, Dean R. H. Tucker, Washington and Lee University, and Dean R. P. Brooks, University of Georgia. Members are requested to send suggestions with respect to officers of the Association for next year to the chairman at Clemson College, Clemson, S. C.

The next annual meeting of the Southern Economic Association will be held on November 14 and 15 at Nashville, Tennessee.

BOOKS RECEIVED

An Introduction to Economics. By Clyde G. Chenoweth. New York: Henry Holt & Co., 1941. Pp. ix, 677. $3.00.

Introduction to Business. By Simon G. Hanson. New York: Thomas Nelson & Sons, 1941. Pp. xvi, 843. $3.50.

Studies in War Economics. Washington, D. C.: International Labor Office, 1941. Pp. 199. Paper covers. $1.00.

Crime and its Treatment: Social and Legal Aspects of Criminology. By Arthur Evans Wood and John Barker Waite. Cincinnati, Ohio: American Book Company, 1941. Pp. ix, 742. $3.50.

The Flow of Business Funds and Consumer Purchasing Power. By Ruth P. Mack. New York: Columbia University Press, 1941. Pp. xvii, 400. $3.75.

Public Utility Economics. By C. Woody Thompson and Wendell R. Smith. New York: McGraw-Hill Book Co., 1941. Pp. x, 727. $4.50.

Elements of Accounting. By Raymond W. Coleman. New York: McGraw-Hill Book Co., 1941. Pp. xi, 294. $3.00.

Technology and Society: The Influence of Machines in the United States. By S. McKee Rosen and Laura Rosen. New York: Macmillan Co., 1941. Pp. xiv, 474. $3.00.

Hopousia or the Sexual and Economic Foundations of a New Society. By J. D. Unwin. New York: Oskar Piest, 1940. Pp. 475. $4.00.

The Promise of Scientific Humanism: Toward a Unification of Scientific, Religious, Social and Economic Thought. New York: Oskar Piest, 1940. Pp. xviii, 364. $4.00.

The Small Loan Problem of the Carolinas: With a Commentary on Regulation in Virginia. By William Hays Simpson. Clinton, S. C.: P C Press, 1941. Pp. 154. $2.00.

Economic Geography: A Regional Survey. By R. H. Whitbeck and V. C. Finch. Fourth Edition. New York: McGraw-Hill Book Co., 1941. Pp. xii, 647. $3.50.

The Integration of American Society. By Robert Cooley Angell. New York: McGraw-Hill Book Co., 1941. Pp. 228. $2.50.

Common Stocks and Bonds as Long-Term Investments. By Leo Spurrier. Chicago: University of Chicago Press, 1941. Pp. viii, 91. $1.00.

Production and Distribution Theories. By George J. Stigler. New York: Macmillan Co., 1941. Pp. vii, 392. $3.50.

Economics of Labor. By Richard A. Lester. New York: Macmillan Co., 1941. Pp. xv, 913. $3.75.

Unfair Competition. By John Perry Miller. Cambridge, Mass.: Harvard University Press, 1941. Pp. xiii, 438. $4.00.

The Labour Situation in Great Britain. Washington, D. C.: International Labour Office, 1941. Pp. 56. Paper covers. 25 cents.

Federal Reserve Charts on Bank Credit, Money Rates, and Business. Washington, D. C.: Board of Governors of the Federal Reserve System, 1941. Pp. 73. Paper covers. 50 cents.

The Boulder Canyon Project. By Paul L. Kleinsorge. Stanford University, Calif.: Stanford University Press, 1941. Pp. xiv, 330. $3.50.

Deficit Spending and the National Income. By Henry Hilgard Villard. New York: Farrar & Rinehart, 1941. Pp. xviii, 429. $3.50.

Fiscal Capacity of the States. Third Edition, Revised 1940. By Division of Finance and Economic Studies, Bureau of Research and Statistics, Social Security Board. Washington, D. C.: Federal Security Agency, Social Security Board, 1941. Pp. vii, 406.

Federal Reserve Charts on Industrial Production. Washington, D. C.: Board of Governors of the Federal Reserve System, 1940. Pp. 229. Paper covers. $1.00.

Principles of Economics. By Ralph H. Blodgett. New York: Farrar & Rinehart, 1941. Pp. xviii, 634. $3.50.

Human Nature and the Social Sciences. By E. L. Thorndike. New York: Macmillan Co., 1940. Pp. xx, 1019. $4.00.

Balancing and Hedging an Investment Plan. By Walter E. Langerquist. New York: Ronald Press Co., 1941. Pp. xiv, 296. $3.50.

Cash Benefits Under Voluntary Disability Insurance in the United States. By Elizabeth L. Otey. Washington, D. C.: U. S. Government Printing Office, 1941. Pp. vi, 117. Paper covers. 15 cents.

Economic Factors Affecting Industrial Relations Policy in National Defense. By Sumner H. Slichter. New York: Industrial Relations Counselors, 1941. Pp. 112. $1.50.

The Reciprocal Trade Agreements Program. By Grace Beckett. New York: Columbia University Press, 1941. Pp. xiii, 142. $2.00.

Foundation of Accounting. By Alfred A'Alessandro. New York: Longmans, Green & Co., 1941. Pp. xii, 622. $4.00.

An Annotated Supplement to the 1937 Edition of the Bank Library: A Selected list of Publications. By Mary P. McLean. Chicago: Commerce Clearing House, 1940. Pp. 26. Paper covers.

History and Facilities of the Bureau of Business Research of the University of Alabama. University, Ala.: University of Alabama, 1941. Pp. 113. Paper covers.

Spiethoff's Theory of the Business Cycle. By Arthur Schweitzer. Laramie, Wyo.: University of Wyoming Publications, 1941. Pp. 30.

Social Science Principles in the Light of Scientific Method. By Joseph Mayer. Durham, N. C.: Duke University Press, 1941. Pp. xxii, 573. $4.00.

The American Labor Press: An Annotated Directory. Washington, D. C.: American Council on Public Affairs. Pp. vii, 120. Paper covers.

National Labor Policy and Total Defense. By Robert R. R. Brooks. Washington, D. C.: American Council on Public Affairs. Pp. 15. Paper covers. 25 cents.

Community Employment Problems Under Defense. Washington, D. C.: American Council on Public Affairs, 1941. Pp. 23. Paper covers. 25 cents.

Want in the Midst of Plenty: The Genesis of the Food Stamp Plan. By Ray Harvey. Washington, D. C.: American Council on Public Affairs. Paper covers. 50 cents.

Patterns of Workers' Education: The Story of the Bryn Mawr Summer School. By Florence Hemley Schneider. Washington, D. C.: American Council on Public Affairs, 1941. Pp. 158. Paper covers. $2.00.

Research in International Economics by Federal Agencies. By Sanford Schwarz. New York: Columbia University Press, 1941. Pp. xi, 360. $1.75.

Regulation of Pipe Lines as Common Carriers. By William Beard. New York: Columbia University Press, 1941. Pp. x, 184. $2.00.

The Business Corporation. By Edward Sherwood Mead and Others. New York: Appleton-Century Co., 1941. Pp. xx, 680. $4.00.

Economic Principles, Problems, and Policies. By William H. Kiekhofer. Revised edition. New York: Appleton-Century Co., 1941. Pp. xxxi, 906. $4.00.

Full Employment. By John H. G. Pierson. New Haven, Conn.: Yale University Press, 1941. Pp. ix, 297. $2.50.

Centralized vs. Decentralized Government in Relation to Democracy. By Paul Studenski and Paul R. Mort. New York: Bureau of Publications, Teachers College, Columbia University, 1941. Pp. vii, 69. Paper covers. 75 cents.

What the New Census Means. By Stuart Chase. New York: Public Affairs Committee, 1941. Pp. 30. Paper covers. 10 cents.

Applied Business Finance. By Edmond E. Lincoln. Fifth Edition. New York: McGraw-Hill Book Co., 1941. xxxv, 948. $4.50.

Economic Analysis. By Kenneth E. Boulding. New York: Harper & Brothers, 1941. Pp. xviii, 809. $4.25.

Farmer's Mutual Fire Insurance Companies in North Carolina. By Marc C. Leager. Raleigh, N. C.: North Carolina Agricultural Experiment Station, Bulletin No. 329, January, 1941. Pp. 19.

The Security Affiliates of National Banks. By W. Nelson Peach. Baltimore: Johns Hopkins Press, 1941. Pp. 187. Paper covers. $1.50.

Social and Economic Aspects of Swedish Population Movements, 1750–1933. By Dorothy Swaine Thomas. New York: Macmillan Company, 1941. Pp. xxiii, 487. $6.00.

Money and Banking. By J. Marvin Peterson and Others. New York: Macmillan Co., 1941. Pp. xvii, 742. $3.75.

The Managerial Revolution. By James Burnham. New York: John Day Co., 1941. Pp. 285. $2.50.

Farm Ownership, Tenancy, and Land Use in a Nebraska Community. By Robert Diller. Chicago: University of Chicago Press, 1941. Pp. vii, 192. $2.00.

Principles of Economics: A Restatement. By Raymond T. Bye. Fourth Edition. New York: Crofts & Co., 1941. Pp. vii, 632. $3.00.

Bank Audits and Examinations. By John I. Millet. Revised Edition. New York: Ronald Press Co., 1941. Pp. xx, 577. $6.00.

An Introduction to the Social Sciences. By Robert E. Riegel and Others. New York: Appleton-Century Co., 1941. Two Volumes. Pp. xxv, 1109, xxvii. $6.00.